In the Shadow of the Pacific Century

Comparative Perspectives on Externalities Influence on Economic Policy-Making in Southeast Asian Would-be NICs

Schmidt, Johannes Dragsbæk

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DEPARTMENT OF DEVELOPMENT AND PLANNING
AALBORG UNIVERSITY
FIBIGERSTRAEDE 11
DK 9220 AALBORG
DENMARK

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- Comparative Perspectives on Externalities Influence on Economic Policy-Making in Southeast Asian Would-be NICs

by

Johannes Dragsbaek Schmidt
Research Fellow

DEVELOPMENT RESEARCH SERIES
DEVELOPMENT RESEARCH UNIT

TELPH. +45 98 15 85 22
TELEFAX +45 98 15 69 50

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> *'The free trade doctrine is just a more subtle form of mercantilism. It is believed only by those who will gain an advantage from it'.*[1]

Introduction

What a difference a couple of decades can make. No Japanese Prime Minister has been called "a transistor salesman" by another foreign leader in many years. But in January, 1992 many Japanese newspapers referred to the United States President as a "car salesman" after he arrived in Tokyo with the heads of the "Big Three" American automakers and other American corporate executives seeking trade concessions.[2] The tone of Bush's trip, as well as the Japanese reaction to it, illustrates the relative decline in American global competitiveness and the new international economic policy challenges for institutions and actors in the post-cold war era.[3]

There is growing concern about the future of the U.S.economy. No solution is in sight for the "twin deficits" in the federal budget and trade, and a recession may have taken hold in the United States. If the American locomotive runs out of steam, it will not be able to pull East and Southeast Asia behind it, and as long as the dragons and the monkeys[4] depend on

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1 The reason why trade liberalization in particular and non-discrimination have historically often been favoured by the economically strongest and powerful is obvious. See Joan Robinson, The New Mercantilism, Cambridge University Press, London, 1966, p.24.

2 The Japanese Prime Minister Kiichi Miyazawa refrained from any direct comments, but nevertheless noted that now it is time for the Japanese to enjoy life. See Ann Elliott Kimberly, United States Trade Policy after the Cold War, Current History, April 1992, p.162.

3 T.R. Reid, Tokyo Official Calls U.S. Subcontractor To Japan Economy, International Herald Tribune, January 21, 1992.

4 Chinese symbols for East and Southeast Asian NICs and Would-be NICs comprising Korea, Taiwan, South Korea and Singapore, and Malaysia, Indonesia, Thailand and Philippines, respectively.

external supply and demand for their economic growth, sooner or later their economies must decelerate.

Moreover, the dissolution of the cold war has made it easier for the Americans and the Europeans to put pressure on the Asian NICs and Would-be NICs on trade issues. Unlike the period 1950-70s when the ideological confrontation between the Soviet socialist bloc and the Western capitalist bloc made it imperative that the Asian NICs and Would-be NICs be viewed as successful models of capitalist development, and hence needed nurturing, encouragement and support from the capitalist industrialized countries, there is no such ideological imperative in the 1990s. The main impetus to the miracle economies is very well capsulated in a thoughtful reminder in Japan Echo 1992: "You might say that Reaganomics gave birth to the four dragons."[5]

Weakened political leadership on a global scale has left a conceptual vacuum. Rand Corp.'s Jonathan Pollack sees "an indeterminate strategic situation in which nobody has any idea what is driving geo-political relationships beyond their gut instincts about economic and military power". This is a precise description of a process of status displacement, or what A.F.K. Organski has called the 'power transition' problem,[6] and this period of uncertainty creates serious problems for policy-makers in East and Southeast Asia.

Furthermore, the formation of exclusive regional economic groupings in Europe with EC's common market officially starting 1st January 1993 and the North American Free Trade agreement between United States, Canada and Mexico, NAFTA, threaten not just Japan but also other dynamic and highly world trade-dependent East and Southeast Asian Economies, which experienced dynamic economic growth in the 1980s. One thing is clear, the open trading system has so far been working for the benefit of the non-EC and non-NAFTA countries. With the possible prospect of a breakdown of the GATT negotiations seriously threatening the benefits which for a long period has pushed growth of East and Southeast Asia policy-makers face new constraints and uncertainties.

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5 Owada Hisashi and Kosaka Masataka, The Post-Cold-War Diplomatic Agenda, Japan Echo, Vol.XIX, Number 1, Spring 1992, p.10.

6 A.F.K. Organski, World Politics, Alfred A. Knopf, New York, 1968 cf. Robert Gilpin(b), Where Does Japan Fit In?, in Kathleen Newland, The International Relations of Japan, Macmillan in association with Millennium: Journal of International Studies Houndmills, Basingstoke, Hampshire, 1990, p.5 ff.

In fact, whatever the outcome of West European and North American plans to create unified common economies, the motive in part is to counter the growing challenge of the Japanese and the NICs in trade and financial services. At the Toronto Summit in June 1988, Prime Minister Takeshita warned against the rise of the European Community and North American trade-blocks, and hinted that Japan could convert its strong position in East Asia into a similar trade-block if necessary.[7]

The trend of slow growth or stagnation in the developed North, a fast rising East-cornered South and the subsequent change from a bi-polar to a multi-polar, some would argue uni-polar, post cold war world order combined with a tendency towards regionalized trade-blocks based on protectionism and mercantilism reveals the urgency of dealing with new understandings of these rapid changes in the international division of labour and the world order.

There is a need to reexamine theories and explanations on important issues such as political power and decision-making in the international political economy in order to create a revitalized debate about the structures and actors which cause these rapid changes. Also the new trends and changes on the global scene imply a theoretical shift towards an interrelationship between geo-political and economic (trade) factors which determine the so-called new world order.

It will be argued that an International Political Economy (IPE) perspective goes beyond the differences between traditional neoclassical theory and their latest application; new institutional economics/new political economy (NIE/NPE) emphasizing the internal or external factors of growth in the ASEAN-4.[8] In the IPE perspective, the external environment is seen as one of the explanatory factors of defination when analyzing the phenomenal growth rates in the ASEAN-4 and the subsequent associated dependency relationships of these countries and their economies on international institutions and actors. Economic policy-making becomes a battle ground where institutions and actors from the external as well as the domestic context, state and society, influence three stages and processes of economic policy-making. This explanation also suggests an answer to why the ASEAN-4 are delayed in their

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7 Far Eastern Economic Review, 17 July 1988. However, needless to say, Japan does not welcome the growth of regionalism in world economic affairs for the obvious reason that its own prosperity rests on broad and stable access to the world market. See Takashi Inoguchi, Japan's Foreign Policy in a Time of Uncertainty, International Journal, Canadian Institute of International Affairs - Japan's Global Role - Vol. XLVI No.4 August 1991, p.595.

8 For a comprehensive discussion on these approaches in the Southeast Asian context see Richard F. Doner, Approaches to the Politics of Economic Growth in Southeast Asia, The Journal of Asian Studies vol.50, no.4, November 1991, Asian Studies Association, Inc., pp.818-849.

development at least compared with the NICs. Neo-mercantilism seems to be the preferred response by states to a stagnating world economy and the only strategy able to catch up with the industrialized center states and regional trade blocs. Therefore, it is relevant to incorporate a neo-mercantilist perspective to the IPE framework in order to give a full understanding of the interplay between internal and external factors.

The **main focus** of this discussion-paper examines as a matter of exemplification the interlinkage between the influence of international institutions on economic policy-making in the ASEAN-4. To illuminate the argument, and as an attempt to apply the IPE perspective to an empirical grounded argument, the analysis highlights the comparative perspective on the regional Southeast Asian level in addition to the country-specific impact i.e. regional and national responses to the changes in the international order. Though international pressures weigh heavily on developing countries, the ability of such countries to formulate coherent responses is contingent to institutional arrangements and capabilities, among them, the nature of economic decision-making structures and the policy instruments available to political elites. Not least experiences from Korea, Taiwan and Japan have shown the truth of this statement.

Part one gives a brief interpretation of new theories on changes in the world order and the international division of labour. As an attempt to discuss and develop these theories it advances a tentative analytical framework. It also seeks to explain the new tendencies of polarization between core and periphery i.e. North and South and what are the consequences of the rise of 'the Japanese Challenge' leading the Asia-Pacific century to the foreign direct investment (FDI) dependent export-oriented economies of the ASEAN-4.[9]

Part two examines the development performance of the ASEAN-4 focusing mainly on the post-1980 period where a major shift in policy took place. A framework for comparative analysis must combine a typology of growth trajectories in order to identify the variation across cases. In **Part three**, an attempt is made to explain state strategies of the ASEAN-4

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[9] The ASEAN-4 comprises the Four 'Big Farms' or the resource rich countries in the ASEAN region. They accounts for over 99 per cent of the population of the region and are usually referred as the nations with an abundance of rural labor: Thailand, Malaysia, Indonesia and the Philippines. Furthermore, Singapore as well as Brunei are members of the political construction ASEAN, but they will only get partly consideration in this analysis. Although Singapore is commonly categorized as one of the East Asian NICs (the Four Dragons) and has enjoyed a rate of economic growth well in excess of the ASEAN-4, it is such an important element within the Southeast Asian world, particularly for the economies of Malaysia and Indonesia, that for some purposes there will be made reference to it here, although for others it may be more usefully categorized with the NICs. See also Bruce Glassburner, ASEAN's 'Other Four': Economic Policy and Performance Since 1970, ASEAN-Australia Joint Research Project, Economic Papers No. 10, Kuala Lumpur and Canberra, 1984.

in a comparative perspective and demonstrate the importance of state capacity, autonomy and government policy as a causal variable in its own right by reexamining a number of central controversies in the political economy of development. These are the question of 'dependency' by comparing the role of foreign direct investment (FDI), loans, overseas development assistance (ODA), and the influence effect of core states in the ASEAN-4. Secondly, what is the relationship between industrialization strategy and regime type? Finally, what are the factors which transformed local technocracies into formidable forces in political and economic affairs, and thus facilitated the transnationalization process in the ASEAN-4?

Accordingly, the final **part four** concludes with an elaboration on the prospects for further economic growth in the ASEAN-4 and some tentative explanations on externalities influence on decision-making processes in the ASEAN-4 and the subsequent state policy responses to the rapidly changing international system. An appendix provides a preliminary questionnarie for a qualitative empirical interview series to be conducted in the ASEAN-4 in autumn 1992 and spring 1993.

Part I. The Internationalization of the World Economy and Responses of Selected Peripheral States. Theories and Approaches.[1]

a. Perspectives on International Political Economy (IPE)

The notion of an international *political economy*, rather than a simple *economy*, reflects a number of considerations. 1) economics, both domestic and international, are a major policy concern of political authorities. 2) developments within the economic realm have a substantial impact upon almost all other areas of policy which are of concern to governments. 3) but slightly more controversial, it can be argued that much of the structure and functioning of the contemporary international economic system, is a direct product of the policies and actions of governments in the past and the present. In this last sense, then, a *political* economy is such, precisely because it is a creation of politics and will always be so![2]

The state is based on concepts of territoriality, loyalty, and exclusivity, and it possesses a monopoly on the legitimate use of force. The market is based on concepts of functional integration, contractual relationships, and the expanding interdependence of buyers and sellers. The tension between these two fundamentally different ways of ordering human relationships has profoundly shaped the course of modern history and constitutes the crucial problem in the study of political economy.[3]

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1 After the collapse of the USSR and the subsequent disappearance of the "Second World", the terms "First World" and Third World" has more or less lost their conceptual value. "Core" and "Periphery" denotes and demarcate two different kinds of space. First, in economic terms, "core" refers to the industrialized states of Western Europe, North America, and Japan, whereas "periphery" refers to the agriculturally based, industrializing states of the developing world. Second, in reference to power, periphery denotes those states which are "weak" relative to the core of great powers dominating the international system. See James M. Goldgeier and Michael McFaul, A Tale of Two Worlds: Core and Periphery in the Post-Cold War Era, International Organization, Vol.46, No.2 1992, p.469 ff.7. Semi-periphery on the other hand denotes these countries which have reduced the income gap between North and South, i.e. Korea and Taiwan and subsequently jumped from peripheral status to semi-periphery. In this paper core- periphery and North-South are used interchangeably.

2 R.J. Barry Jones, Conflict and Control in the World Economy,Contemporary Economic Realism & Neo-Mercantilism, Humanities Press International, Inc. Atlantic Highlands, N.J. , U.S. 1986, p.7.

3 Robert Gilpin(a), The Political Economy of International Relations, Princeton University Press, Princeton, New Jersey, 1987, pp.10-11.

IPE is a focus of inquiry that seeks to explain international politico-economic relations and how they affect the global systems of production, exchange and distribution. IPE sees the nation-state as the key actor in the global system, the organiser of the international political order. The state is treated as an alternative to the market and is seen as the organiser of economic relations.

The concept of states versus markets is, however, flawed because the market is a structure, not an actor, and hence a poor counterpoint to the state. The appropriate counterpoint is the Transnational Corporation (TNC),[4] the key nonstate actor dominating both domestic and international markets. The largest 600 TNCs now generate worldwide sales of over one billion dollars each and together produce one-quarter of world gross domestic product.[5] The crucial problem in the study of IPE thus is the tension between states and transnationals, not states and markets.

These introductory remarks reflects a Marxist, a dependency and a world-systems approach to the study of the international political economy which will be used as the overall framework in the following discussion. This combined approach sees capitalism as a world system. As such, the process of accumulation which governs its dynamic - itself shaped by a law of value operating on a world scale, on a truncated basis, i.e. limited to the markets for commodities and capital, to the exclusion of labour power - necessarily leads to the polarization of the world into centers and peripheries. Polarization is therefore immanent in capitalism.[6] Hymer's law of uneven development argument is part of a broader dependency perspective that sees transnationals as agents of an external process that produce underdevelopment in the periphery. One recent extension of Hymer's international class hierarchy is made by Cox who argues that as production and exchange became more internationalised in the 1970s, social forces mobilised and a transnational bloc emerged.[7] The members of this

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4 UNCTAD and the UNCTC use the term TNC on the grounds that MNE or MNC implies transnational ownership whereas most multinationals are owned by residents of one country, United Nations Center for Transnational Corporations (UNCTC)(b), Transnational Corporations in World Development, United Nations, New York, 1988, p.219.

5 Op cit. Chapter 1.

6 Samir Amin, Empire of Chaos, Monthly Review Press, 1992, p.7.

7 Robert Cox (a), Social Forces: States and World Order, Millennium Journal of International Studies, Vol.10, No.2, 1981, and Robert Cox(b), Production, Power and World Order: Social Forces in the Making of History, Columbia University Press, New York, 1987 cf. Lorraine Eden, Bringing the Firm Back In: Multinationals in International Political Economy, Milennium, Journal of International Studies, Summer 1991, Vol. 20 No. 2, Milennium Publishing Group, London School of Economics and Political Science, pp. 201-202.

block - TNCs, transnational banks TNBs and international institutions - are linked by transnational forces and have a shared ideology. Cox sees world classes being formed with the highest world class being a managerial class made up of labour and capitalists who work in the transnational bloc.

TNCs have been defined as corporations with production complexes in more than one country; whereas trading, banking and other service TNCs may be designated as business entities that control assets in two or more countries.

In the third quarter of the twentieth century, nature and composition of world trade underwent a staggering metamorphosis. At dead centre of this sprawling historical fresco, the transnational corporation, now accounts for 80-90 per cent of world trade (excluding the former planned economies and even there it has acquired more than a foothold). The pace of capital concentration into fewer and larger corporations was speeded up to levels hitherto unimagined.

The nature of power on the global market can be defined to a significant degree by the combined forces of the 200 TNCs and the 200 largest banks. But these two hegemonic categories (of which the German and Japanese banks are prime examples) are by no means autonomous, but structurally inter-penetrative in their decisional powers.[8]

Coupled to the State apparatus and the transnational banking system to which it is organically meshed, the TNCs are seen to be acknowledged instruments of totalitarian power. Even in the prism of liberal opinion, the fabian J.K. Gailbraith touches this central point: "When the modern corporation acquired power over markets, power in the community, power over belief, it is a political instrument different in form and degree, but not in kind from the state itself."[9]

Geoffrey Jones has defined TNBs as:[10] Transnational banks (which) own and control branches and affiliates in more than one country. Furthermore he gives this explanation on the

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8 Frederick C. Clairmonte, The Political Economy of Transnational Power in Partisan Scholarship: Essays in Honour of Renato Constantino, JCA, Manila, 1988, pp. 320-322.

9 John Kenneth Gailbraith, American Economic Review, March 1983 cf. Frederic Clairmonte, ibid., pp.322.

10 The following notes on TNBs relies heavily on: Geoffrey Jones (ed.), Banks as Multinationals, Routledge, London and New York, 1990, p.1 and pp. 8-10.

symbiosis between states and TNBs: Almost all writers on Transnational banks have stressed the influence of government in explaining where they invest and what business they undertake. Banking is by no means an exception in this respect. Business historians have for long emphasized the role of tariffs and other government imposed trade restrictions in prompting manufacturing companies to establish foreign factories, a consistent trend from the first manufacturing transnationals in the mid-nineteenth century to Japanese direct investments in the United States and the European Community in the 1980s. Government intervention in banking, however, has been particularly extensive, and perhaps of a different dimension altogether. This is because banking is not merely one economic sector among many. Banks have an impact on all other sectors through their lending polices; on large numbers of individuals (or voters) through their deposit/taking function; and on the general financial and monetary condition of an economy. Problems of information and asymmetry and moral hazard have led governments since the nineteenth century to establish non-commercial central banks. There has been a long tradition of theoretical criticism of state intervention in banking (especially the role of central banks) from Bagehot to Hayek, but in practice regulation and control has been the fate of the banking industry in every developed country.

Also national governments have continued to influence their transnational banks in the twentieth century. The formidable surge in japanese transnational banking in the 1980s was partly the consequence of the domestic regulatory environment and interest rate controls within Japan, which led to London branches being extensively used as a flexible funding source to support lending inside Japan, while American branches were used in part to extend loans to Japanese-based companies. Governments also exercised a strong influence on the direction of transnational banking investment through host-economy regulations.

Although the process of transnationalization is explicable and predictable within a framework of internalization it must be acknowledged that governments have in the past- regulated and controlled banking - and are likely to do so in the future. Often the perceived 'public interest' conflicted with that of the banks or their shareholders. Much of government intervention, too, stemmed from motives that were not economically 'rational', including ideologies based on past historical experience and concerns about national sovereignty. As a result, the process of selection of the most efficient organizational form for banking activities came less 'through competition and rational evaluation of alternatives' than through the actions of politicians and regulators.

In general IPE and political economy means the theoretical recognition that the market is not something that can ever exist in a disembodied state or without a history. "Pure competition" and "perfect information" never occur in any market economy, and therefore interpretations of how markets behave based on these ideas are irrelevant. Therefore, one might say the study of IPE is too important to be left to economists.

This is also the view of the first approach to be considered; neo-mercantilism which is located firmly within a tradition that has persisted throughout the late nineteenth and twentieth centuries. During the late nineteenth century, this approach towards the management of national economic and industrial policy was given its most developed expression by the German political economist Friedrich List, in an argument that identified the central importance of industry and advocated systematic, if essentially temporary, protection for a country's infant industries. The successful promotion of national industries required, as many later writers have also argued, the preservation or development of suitable institutions and socio-economic structures.[11]

The central idea of neo-mercantilism is that economic activities are and should be subordinated to the goal of state building and the interests of the state. All nationalists ascribe to the primacy of the state, of national security, and of military power in the organization and functioning of the international system.

The neo-mercantilist assumption, is, that no economic system can exist without a political framework of some sort. Thus, a separate analysis of either the world economy or the international political system doesn't make much sense, but must be dealt with within one single theoretical framework. Neo-mercantilism focuses in particular on the national-state system and the role of international political relations in the organization and management of the world economy. The eclectic and pragmatic approach of neo-mercantilism makes it the dynamic core in the current development of IPE, but also the vaguest of the three traditions of political economy.[12]

The second approach, is the framework of the New Political Economy, or NPE. This theory applies principles of neo-classical economics to politics by tying political phenomena to

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11 Friedrich List, The National System of Political Economy, Longmans, Green and Co., London (English Edition), 1922. On List, see for example Roman Szporluk, Communism and Nationalism Karl Marx Versus Friedrich List, Oxford University Press, New York & Oxford, 1988. For more recent works within this general tradition see Dudley Seers, The Political Economy of Nationalism, Oxford University Press, Oxford, 1983, and Barry Jones, Op cit. pp. 65.

12 Including Liberalism and Marxism. See Barry Jones, Op cit. pp. 163. Also Björn Hettne, Neo-Mercantilism: What's in a Word?, in John Martinussen (ed.), New Institutional Economics and Development Theory, Occasional Paper no.6, IDS RUC, Denmark, 1993, p. 211.

notions of rational behaviour and the pursuit of self-interest. The core of the NPE thesis is that political factors influence the selection of economic policies and that political objectives frequently have economic consequences contrary to the economist's objectives.[13]

NPE applies traditional microeconomic assumptions about the primacy of individual self-interest to political phenomena such as the political claims of citizens, the acts of politicians and policy-makers, the behaviour of bureaucrats, and even the actions of states. NPE rejects explanations based on classes and technocrats. Instead the NPE focuses on interest groups, parties and voters, bureaucrats, and state interests.[14]

Robert Bates gives a precise critique of the NPE on the grounds that it assumes the existence of perfectly competitive markets and builds its analysis upon the market distortions introduced by governments. These distortions are used to measure the power of private interests and political forces. In fact, Bates suggests an analysis that incorporates political rules and institutions, the new institutional economics (NIE), and calls the proponents of the NPE to be what they claim to be: "Truly neo-classical in their approach to politics, relying on the individual as the unit of analysis."[15]

The third option, the NIE approach seeks to show that statism is not analogous to, but rather a component of, an institutionalist approach to development.[16] The NIE agrees with the neo-mercantilist approach that all markets must have rules, including rights (such as property rights) and institutions in order to function at all. Institutions are temporarily fixed or regularized rules. Rules include the nature and form of contracts, antitrust laws, and institutions include unions, the banking system, the educational system, and the political system. As one of the proponents of the NIE approach, Chalmers Johnson describes its contents: "It is through institutions and the struggle to institutionalize rules that are favourable to one group or another, that politics and political preferences structure the ways economic

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[13] See among others Gerald M. Meyer (ed.), Politics and Policy-Making in Developing Countries: Perspectives on the New Political Economy, ICS Press, San Francisco, California, 1991.

[14] Gerald M. Meyer (ed.), Politics and Policy-Making in Developing Countries. Perspectives on the New Political Economy.Executive Summary, ICS Press, San Francisco, California, 1991, p.15.

[15] Ibid, pp. 22.

[16] Douglass North and Robert Paul Thomas, An Economic Theory of the Growth of the Western World, Economic Historic review 22 no.1, 1970, p.5. Cf Richard F. Doner, Limits of State Strength. Towards and Institutionalist View of Economic Development, World Politics, Vol.44, no. 3, 1992, p. 401 and fn. 3.

processes work."[17] It is through the influence of rules, institutions and strategies that real-world economic outcomes change and develops. However, the NIE perspective could also be termed a "modified neoclassical view."[18]

As such it might be claimed that there are two central debates in the NIE Framework on the role of the state in the economic development of the NICs and Would-be NICs. The first concerns the relationship between policy and economic outcomes, and emphasizes market-oriented, neo-classical interpretations against statist alternatives. The second debate addresses the political determinants of policy choice and places the explanatory power on the strength of the state and its institutional arrangements, including regime type, the government's role in organizing interest groups, and the internal structure of the economic policy-making apparatus.[19]

Common to the NPE and NIE literature is the key importance of the internal political factors i.e. how institutions reconcile individual and collective rationality within society as a whole and on the other hand that cross-national evidence on the relationship between authoritarianism and economic performance remains mixed at best.[20] It is exactly here there is a watershed between NPE and NIE approaches and world systems or IPE analysis, where the latter puts emphasis on international processes' links with the domestic context or the core-periphery relationship.

The problem of upgrading a state's mix of core-peripheral activities is thus largely a problem of being able to attract and develop organic links with "core capital". It is the capability of core states (and a corresponding incapability of peripheral states) 1) to control access to the most remunerative outlets of all major commodity chains, 2) to provide the infrastructure and services required by core-like activities, and 3) to create a political climate favourable to capitalist entrepreneurship.

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17 Chalmers Johnson (d), The Japanese Political Economy: A Crisis in Theory, Ethics & International Affairs, Vol.2, 1988, p.82.

18 See Stephan Haggard (b), Pathways From the Periphery: The Politics of Growth in the Newly Industrializing Countries, Cornell University Press, Ithaca, New York, 1990, p.15.

19 Stephan Haggard and Chung-In Moon, Institutions and Economic Policy: Theory and a Korean Case-Study, World Politics, Vol.42, no. 2, 1990, p. 211.

20 Haggard and Moon, Op cit. pp. 212.

This means that core states control the revenue advantages of core locations and can use that control both to develop a symbiotic relation with the core capital that is already located within their jurisdiction, and to attract more core capital from peripheral locations. To be sure, peripheral states control the cost advantages of peripheral locations. Generally speaking, however, they cannot use this control to compete effectively with core states for two reasons. In the first place, given the much larger number of peripheral than core states, it is easier for the latter to bargain and obtain free access to the cost advantages of peripheral locations than it is for the former to bargain and obtain free access to the revenue advantages of core locations. As a consequence, the cost advantage of peripheral locations is far more "dependent" on a free access to the revenue advantages of core locations than the latter are dependent on a free access to the former.

In the second place, and closely related to the above, in the environment typical of the core zone - characterized by remunerative markets, efficient infrastructures and services, and a political climate favourable to capitalist enterprise- high costs are not an obstacle but an incentive to the continuous stream of innovations that is required to reproduce the zone's core status. In contrast, in the environment typical of the peripheral zone - characterized by fragmented and discontinuous markets, inefficient infrastructure and services, and a political climate often unfavourable to capitalist entrepreneurship - 'high costs are powerless in sustaining innovations while low costs simply provide an incentive to organize peripheral activities'.[21]

So far, these highlights of various approaches have tried to clarify from different stances how political processes and institutions, domestic and international, influence the success or failure of economic polices. The IPE and neo-mercantilist perspective moves beyond explanations based on static analyses, thus incorporating a dialectic perspective on domestic and international actors and institutions, how these forces constrain economic policy and shape state responses to the external environment.

[21] Giovanni Arrighi & Jessica Drangel, The Stratification of the World-Economy: An Exploration of the Semiperipheral Zone, Review, X, 1, Summer 1986, pp.24-26.

b. Concepts and Reality!

The characteristics of the globalization trend include the internationalizing of production, the globalization of finance and securities trading, the changing international division of labour, vast migratory movements from South to North, and the competitive environment that accelerates these processes.[22]

They also include changes in the nature of states and the inter-state system. States are becoming internationalized in their internal structures and function. In short, the state is becoming a transmission belt from the world economy to the domestic economy. Changes in the state's role give new scope to non-state and sub-state entities for establishing their own direct relationship with the global political economy. Transnational enterprises have been the principal movers of the internationalizing of production, and both participants and beneficiaries of the globalizing of finance.[23] This is in its essence also the argument by Michael Porter.[24] According to Porter the key word is "competitive". The well-being of a nation is determined by its firms' capacity to compete successfully in the international market through continuous upgrading. Imparative to understanding economic prosperity and national capital accumulation is the appreciation of why nations can or cannot compete in sophisticated industries and activities. However, this is only a half truth since mercantilist competition and conflicts are intensifying on the global scale. This is suggested by, 1) the increasing role of the state and of economic power in international economic relations. 2) A growing struggle for world markets. 3) The challenge and example of Japan and the NICS.[25]

Eventhough the increasingly global character of production and exchange precludes shielding national economies from foreign competition, this shift provides a major impetus for changes in state policy. It is a global phenomena that states have uniformly chosen to subordinate the provision of welfare services, giving high priority in the preceding period to the promotion of enterprise, innovation, and profitability. Hence, the shift from comparative advantage to competitive advantage or the welfare state to the competitive state. The pattern is mercantilist not minimalist: States continue to intervene extensively in other areas and even tend to

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[22] Robert W. Cox(c), Globalization, Multilateralism and Social Choice, Work In progress, United Nations University, Vol.13 Number 1, July 1990, Tokyo, p. 2.2.

[23] Ibid., pp.2.

[24] Michael Porter, Competitive Advantage of Nations, The Free Press, New york, 1990.

[25] Robert Gilpin(a), Op cit. pp.395.

increase the total amount of state intervention in the overall socio-economic and political context.

Regarding economic matters, capital and trade flows will circulate within the core, while the periphery will continue to get relatively poorer. Likewise, economic assistance coming from the core will dwindle. The United States have already reduced their foreign assistance expenditures, while Japan, now the largest aid donor in the world, spends only 0.3 percent of its gross national product on foreign assistance. The assistance that remains available is increasingly devoted to macro-economic structural adjustment policies and tied to the core state export promotion. If peripheral states want to remain linked to the core economies, they will be compelled to accept the terms of North-South trade and investment proposed by the industrialized states and the major international lending institutions.[26]

Within a span of a few years, Japan has basically changed the world picture of foreign investment, that is, investment which brings with it real control of the production place: managerial, technical, legal. Global investment used to be a bipolar system, according to a UN report, dominated by the U.S. and the EC. Now, it is a tripolar one, with Japan emerging as an equally important player. These three now account for four-fifths of the world's total foreign investment and half of world trade. The other fast-developing Asian countries are an important extension of this triangle, since most of their exports go to these three markets.

World-wide flows of foreign direct investment (FDI) have increased rapidly in recent years, almost tripling between 1984 and 1987. As was the case earlier in the decade, FDI flows continue to take place primarily among developed countries, and this concentration has increased. As a corollary to this development, the share of developing countries in world-wide FDI inflows has declined and within this group of countries, the least developed countries have been affected even more adversely.

In the context of increased concentration of FDI flows among developed market economy countries, the announcement of the creation of the single internal market within the European Community by the end of 1992 is a significant development. Of course, as already mentioned the Nafta accord has also had a significant impact on flows of FDI.

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[26] See Stephen Krasner, Structural Conflict: The Third World Against Global Liberalism, University of California Press, Berkeley, 1985, and Robert O. Keohane, After Hegemony: Cooperation and Discord in the World Political Economy, Princeton University Press, Princeton, 1984, p. 253.

There has been a continuation of the shift in the direction of FDI inflows away from developing countries and towards developed countries. An examination of the global geographical distribution of FDI inflows during the period 1981-1987 shows that five major home countries are also the largest recipients of FDI, accounting for 58 per cent of total inflows in 1984-1987, an increase over their share of 53 per cent in 1981-1983. In 1986 and 1987, these five countries accounted for 60 per cent of total inflows. Latin America and South and East Asia have experienced a decline to 8 and 9 per cent, respectively, in 1984-1986, from relative shares of 13 and 11 per cent in 1981-1983.[27]

One of the reasons for the increase in FDI flows since the mid-1980s has been the increased profitability of FDI and the changing strategies of TNCs. This is also reflected in a study done by the United Nation's Centre on Transnational Corporations pointing at the result which is an uneven distribution of inflows of FDI to developing countries within regions. Changes over a period of time in regional inflows of FDI do not show substantial differences within the regions. A relatively small number of developing countries have been receiving most of the inflows of FDI. In Latin America and the Caribbean, FDI totaled 13 per cent of world wide inflows in 1981-1983, and 8 per cent in 1984-1987. Five countries (Argentina, Bermuda, Brazil, Columbia and Mexico) accounted for 82 per cent of the region's inflows in 1981-1983 and for 93 per cent in 1984-1987.

In West Africa, while the absolute level of inflows grew and the share of world wide flows stayed level, the proportion of the region's inflows going to three countries (Israel, Oman and Saudi Arabia) grew from 71 per cent in 1981-1983 to 91 per cent in 1984-1987.

In South and East Asia, four countries (China, Hong Kong, Malaysia and Singapore) received 78 per cent of inflows in 1981-1983 and 72 per cent in 1984-1987. Inflows of FDI for the region as a whole declined from 11 per cent of world totals in 1981-1983 to 9 per cent in 1984-1987.[28]

Overshadowing the flows of FDI to developing countries is the severity of the burden of debt service faced by developing countries. Firstly, there exists a close interface between the persistence of the debt problems and FDI inflows. This is particularly apparent in the debt-

[27] United Nations Centre on Transnational Corporations, UNCTC(c)Transnational Corporations and International Economic Relations: Recent Developments and Selected Issues,Current Studies Series A No.11, United Nations, New York, September 1989, p.2.

[28] Ibid., pp.11.

ridden Latin American region where there has been a decline in the absolute value of foreign direct investment. Second, a significant part of the debt of developing countries, particularly those in Latin America, is owed to TNBs. Most studies in this area only peripherally address the role played by TNBs in the creation and prolongation of the international debt crisis. In consequence, there is often an inadequate appreciation of the responsibilities that those entities should assume in resolving the crisis, as a supplement to others - the debtor developing countries.

Indeed the concepts of core, semi-periphery and periphery, which were introduced into world-system analysis several decades ago in a geographical sense[29], are now seemingly more significant as concepts of social differentiation. "The elites of globalization merge into a common structure, even when they compete among themselves for primacy. The relatively powerless are fragmented by nationality, ethnicity, religion and gender - all obstacles to a greater cohesion - but their subordination is a manifestation of the formation of a global society."[30] Over time the loci of economic activities keep changing. Hence, some areas 'progress' and others 'regress'. But the fact that any particular state changes their position in the world economy from semi-periphery to core or vice-versa does not in itself change the nature of the system. These shifts will be registered for the individual states as 'development' or 'regression'. The key factor to note is that within the capitalist world economy, all states *cannot develop simultaneously by definition*, since the system functions by virtue of having unequal core and peripheral regions.[31]

For states located in the periphery the fundamental question is how to cope with these changes. In addition, independent of the breakdown of the planned economies, two tendencies seems to be pursued simultaneously on the global level, which are of a more permanent nature. One is deregulation, liberalisation and industrialization in the semi-peripheral and peripheral catch-up states and the other is regulation, protectionism and de-industrialization in the core. This seemingly contradictory process is accompanied in the ASEAN-states with high economic growth rates and a rising confidence in their development performance.[32]

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29 Immanual Wallerstein, The Modern World-System, Academic Press, New York, 1974.

30 Cox(c), Op cit.

31 Immanuel Wallerstein, The Capitalist World-Economy, Cambridge University Press, New York, 1979, pp.60-61 (emphasis in original).

32 Average GNP growth rates for the ASEAN-4 has been above the average for other developing regions, Between 1971-80 the average was 7.4 per cent and the inflationrate was 13.6 per cent. 1981-90 saw a growth rate on 5.2 per cent and a falling inflationrate to 7.5 per cent. Asian Development

However, once a peripheral country succeeds in its industrial upsurge, the growth rate of such an economy is high, surpassing the rates of growth of other economies, and grows even amid a depression in the world economy. When the growth rate of the economy surpasses those of the core states, it will be conspicuously higher in contrast to the declining trend of the world economy. Trade friction will occur at this time when the core states try to defend their markets. This is one of the reasons that growing polarization and trade friction is deeply related to the world recession and the industrialization in the periphery. Another is the fact that most peripheral states catch-up only in backwards technological industries. This is because of the existence of a technological gap between the layers of the division of labour. Therefore, it is relatively obvious that the peripheral states caught up in the cotton textile industry so far.

The link between the debate on how peripheral states strengthen their capacities and capabilities in order to develop strategies and implement efficient economic policies to catch-up with the core states and the various state responses to the dramatic changes in the capitalist world system will be elaborated upon in the following.

c. Regionalization or Liberalization in the World Economy

The world economy is increasingly being transformed for the new coming era in which butter will be far more vital than guns, and the competition among major powers will be intensified. The hegemonic role of the U.S. shows a tendency for further decline. Whereas Japan and the EC are expected to grow relative to the U.S. This will create a situation of U.S.-Europe-Japan tripolarity, resulting in strong economic rivalry among the three major powers.

The U.S.-dominated world order of the postwar period has been largely reversed by the rising economic power of Japan and the relative decline of the U.S. economy. The Japanese share of the world GDP increased dramatically from 4.1 per cent in 1960 to 11.8 per cent in 1985, while the U.S. share decreased from 31.5 per cent to 25.2 per cent during the same period.

In fact, economic regionalism and a new kind of mercantilism is perceived by many scholars as rising and may overtly compete with GATT-sponsored multilateralism. An almost universal theme among policy-makers and academics has been the urgency of the task of promoting

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Bank, Asian Development Outlook, 1992, Manila, 1992, Table A1 and A9. (See also the discussion on pages 38-39 and table 2 in this paper).

international competitiveness on global markets. Today, all countries in the world economic hierarchy are export-oriented, trying to take maximum advantage of the expansion in world trade by increasing their share of global exports. Regionalism and neo-mercantilism are increasing since 1) the hegemonic role of the U.S. in the world economy is rapidly declining and tends to be replaced by a tripolarization of world trade and production in which the U.S., the Single European Market and Japan will become three major centers, 2) multilateral free trade under GATT is under serious challenge by a changing U.S. trade and industrial policy, rising regionalism and protectionism in Europe, and the passive role of Japan, and 3) exporting countries in North and Southeast Asia are on the brink of moving towards forming free trade areas in fear of rising regionalism and protectionism in the U.S. and Europe.

The European integration is a major factor contributing to the rise of regionalism today. One reason for the formation of the EC bloc is to respond to the rise of Japan, and to serve as a catalytic force to compete in world markets. The EC at present relies very little on trade with non members. In 1991, approx. 60.8 per cent of its total trade is intra EC-trade.

In 1990, the trade between the EC and NAFTA countries already accounted for almost 60 per cent of world trade.[33] Compared with the fact that Japan, the largest economy in Asia, is unlikely to become the major absorber of the region's manufactured exports in the near future, the scope of any intra-regional integration scheme will likely be quite limited in East Asia.

The countries of OECD are becoming more protectionist than in the past. They have roughly similar trade policies, with an emphasis on restrictions on imports of labor-intensive consumer goods, such as textiles, clothing, footwear, and leatherware. All goods where peripheral countries have a comparative advantage. The history of EC countries is dominated by protectionism and discriminatory solutions to economic problems which has sharply increased its trade diversion impact on the rest of the world. Japan puts an almost universal emphasis on restricting imports on agricultural goods. Japan also uses non-tariff measures to restrict imports of high-tech goods. The United States has strong restrictions on the import of consumer goods in general, with particular emphasis on limiting imports of cars, steel, textiles and garments.

The threat of growing protectionism has recently been most evident in pre-NAFTA measures taken by the U.S. The trend in the U.S. Trade Acts of 1984 and 1988 giving increased

[33] IMF, International Financial Statistics Yearbook, Washington, 1991.

discrimination to the administration to regulate imports with an emphasis on reciprocity and bilateralism to achieve market access. In 1988, the U.S. Congress withdrew the benefits of the Generalized System of Preferences(GSP) from Singapore, Hong Kong, Taiwan, and South Korea and is threatening to affect Thailand and Malaysia in 1993 with the same measure unless they improve the situation on non-trade issues such as workers rights and human rights. In 1989, the Congress went further, labelling Japan as an 'unfair trader' under the provisions of the Omnibus Trade and Competitiveness Act (better known as Super 301), and reportedly only left South Korea and Taiwan out of the list because of some market-opening measures on their part. Protectionism is becoming systematic in the world-economy, and non-tariff barriers are increasingly used for restricting imports.

It is true that tariff rates in the core have been reduced substantially, partly as a result of the Tokyo Round of trade negotiations among the members of GATT. Since then however, more and more trade restrictions and trade escalations have been introduced in the form of non-tariff barriers. In effect, import restrictions have not diminished since the Tokyo Round. Moreover, the core and not the periphery was the beneficiary of tariff cuts. For instance, the EC reduced tariffs on total imports of finished and semifinished manufactures with a weighted average of 28 per cent. Tariffs on import from developing countries has, however, been reduced by an average of only 25 per cent. The figures for Japan are 46 and 32 per cent, while for the U.S. the figures are 30 and 24 per cent.[34] The total impact of the tariff reductions, therefore, has not improved the competitiveness of the developing countries with the industrial countries. The outcome of the takeover negotiations, the socalled Uruguay Round remains uncertain and bleak.

In the present world situation, nobody seems to know the answers to the urgent problems and certainly not what the future brings. As pointed out by Gilpin[35], the long-term problem for the United States, and for the rest of the trading world as well, is the repayment of the vast accumulated U.S. debt - which is rapidly approaching one trillion dollars - to Japanese and other foreign creditors. To accomplish this task, the United States will have to devalue the dollar even more substantially than it already has been and achieve a trade surplus. The problems such an American turnaround in trade and finance would cause for other nations can only be described as formidable. It would certainly require a substantial appreciation of

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[34] Suhadi, Mangkusuwondo: Trade Policy as a Strategy for Structural Adjustment, in Ungku A. Aziz, (Mod.): Strategies for Structural Adjustment. The Experience of Southeast Asia, Papers presented at a Seminar held in Kuala Lumpur, Malaysia, June 28-July 1, 1989, International Monetary Fund & Bank Negara Malaysia, Washington, 1990, p. 91.

[35] The following paragraph relies on Robert Gilpin(b), Op cit. pp.19.

the yen and Japanese importation of huge quantities of foreign products. The Japanese as well as the West Europeans and the NICs might be expected to resist strongly any large appreciations of their currencies because of the consequences for domestic employment. As stated in the conclusion of Gilpin's article: the question is where Japan fits into the emergent (neo-mercantilist) international economy?

d. Towards the Pacific Century in a Tripolarized World System

As many authors have pointed out, the Pan-Pacific area, which has experienced a most rapid growth in recent decades, is expected to be the core of the development of the world economy in the future decades. Led by Japan and the four NICs, this area is the most rapidly growing region in the world. Ranging from the world's two largest economies through the medium-sized to the region's five advanced nations - Canada, the United States, New Zealand, Australia, Japan - and the NICs. These nine countries, plus China and the Southeast Asian developing nations, engage in about the same share of world trade as the European Community (some 40 per cent each); and their trade with each other, at 56 per cent of their total trade, is slightly smaller than the EC members' trade with each other (about 60 per cent).

However, this prediction is somehow blurred. In 1988, the gross national product of the whole world was approximately $20 trillion. The United States and the European Community each accounted for roughly $5 trillion, and Japan accounted for about $3 trillion. Together they produced almost two-thirds of the world's GNP. By coincidence, the same ratio of 5:5:3 symbolized the distribution of responsibility for the world order before World War II; The Washington Naval Armament Limitation Treaty of 1922 limited the tonnage of warships at a ratio of five each for the United States and Britain to three for Japan. As one of the world's naval powers, Japan was responsible for the maintenance of international peace. Unfortunately, it overestimated its military strength and, instead of defending the existing order, chose to change it by force with tragic consequences for the entire globe.

Half a century later, Japan again finds herself a party to a 5:5:3 set up, this time based on economic strength, and again it has a responsibility for maintaining the world order. The fundamental issue in Japan's international role today, then, is how to apply the country's new-found economic strength to fulfil this responsibility with the growing problems in the world economy. It seems that Japanese policy is limited to the Asia-Pacific but with a trade focus on the EC and American Market. In the Pacific, Japan has the status of a global economic power. It's commerce, overseas production and financial activity have aided rapid growth in the East Asian NICs and the ASEAN-4. However, Japan has the image of an intensely neo-mercantilist state which has evoked accusations of failure to play a responsible leadership role in the international economy, and of avoiding political and security issues that might harm it's trading interests. Highly consensual bureaucratic-led decision making, with forward planning, activates the neo-mercantilist Japanese policy which focuses on the EC and American market and the potential of the resource-rich developing East Asian Countries as production bases.

By the mid-1980's Pacific trade surpassed Atlantic trade for the United States and Canada. Thus in 1990, the Asia-Pacific region's overall intra-regional trade ratio (measured by imports and exports) expanded to 60 per cent.[36] Prudent economic policy has formed the foundation for realizing high economic growth in some of the developing countries of the Asia-Pacific region. In the 1980's most developing countries of the region were exposed to large fluctuations in both income and price. These developing countries suffered from imbalances in international balance of payments, and fiscal revenue and expenditure, and from the gap between savings and investment in the private sector. These imbalances have carried over into the 1990's. Because of their export-oriented economies, both the Asian NICs and ASEAN countries have been prone to external shocks. Nevertheless, it seems that structural adjustment policy(SAP) ranks with that of macro-economic policy, thus, fiscal and financial policies and exchange rate regulations have been a stabilizing factor, but also a hindrance for the development of a self-reliant economy similar to Japan's.

There are varying explanations for the success of Japan, the NICs and to some extent the ASEAN-4 for maintaining relatively high growth rates and their subsequent changing location in the international division of labour. Furthermore, since the ASEAN-4 lags behind the NICs and Japan on a number of parameters the explanation for the high growth performance must be double-edged. One is a focus on why they are lagging behind another is why they are ahead of other developing regions!

Most explanations in the IPE framework seems to focus on the question of economic policy-making or the role of the state in general. Experiences from the European, U.S. and Japanese industrialization makes this approach appropriate. But it cannot stand alone without a

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[36] APEC Ad Hoc Economic Group Meeting, Vision for the Economy of the Asia-Pacific Region in the byear 2000 and Tasks Ahead, Tokyo, Japan, 10-11 August 1992, p.iii.

particular focus on external factors. This discussion will be further elaborated on in the following.

e. Analytical and Methodological Considerations in a New Framework

The new conditions of the IPE determine a process of growing diversification in the periphery, largely conditioned by the capacity of each developing country to reach a certain level of technological development, without which it would be unable to compete on the world markets for manufacturing goods. But the saga of the successful NICs seems to be an exception, rather than the rule, in the process of development. Not only because when a successful selective delinking from the world market happens in one or two countries, development shrinks in others. But also because, the world wide tendency towards export-orientation creates overcapacity in production to the world market which, combined with a limit on global credit creates a tendency to increase unequalities and contradictions in the capitalist world system.

The factors threatening export-led growth are both supply and demand. On the demand side, the openness and absorption of exports from Japan, the NICs and Would-be-NICs by the U.S. economy has been pointed out as a principal reason. Another and even more important reason is overcapacity on the world market. The problem is that the capitalist world economy is once again in a situation with excessproduction and no solution is in sight. In Sen's words, "the reproduction of similar structures of production introduces a secular tendency towards the creation of surplus capacity in substantial areas of manufacturing since internal and external economies of scale compel a level of production which most countries cannot sustain through domestic consumption alone."[37] The economic rationale and impetus for absorption of exports from the NICs and Would-be-NICs is contrary to political sentiments. Soon the newly emerging countries on the export-led growth strategy have to compete with the industrialized countries in supplying high quality and competitive manufactures.

Therefore, policy-makers must resist the temptation to use the NICs as role models for other peripheral countries, forgetting the historical specificity of the NIC development process.

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[37] Gautam Sen, The Military Origin of Industrialization and International Trade Rivalry, St. Martin's Press, 1984. Quoted from Robert Gilpin(a), Op cit., pp. 113.

To understand why this is the case, we need to analyse the NIC showcases. At least three factors were crucial to the unprecedented growth of the four East Asian NICs:[38] 1. Greatly inspired by the Japanese model, the state deliberately intervened in the development process, guiding the economy and providing key elements of economic and social infrastructure. (Contrary to popular mythology, state intervention was significant even in "free-market" Hong Kong). Certain structural reforms, such as the agrarian reform in Korea and Taiwan and the urban reforms in Hong Kong and Singapore, established the preconditions for successful development. 2. Each nation's developmental effort coincided with a period of rapid world economic expansion and internationalization.[39] 3. Certain geo-political conditions made possible an easy access to key markets in the United States and Great Britain, and substantial economic aid became available in the early stages of the development process.

Moreover, several additional circumstances could be pointed out in the world-economy that facilitated the NIC phenomenon: 1. Transport costs and trade barriers in core markets (North America and Northwestern Europe) were tumbling. 2. Competition intensified within the U.S. market, especially with the entry of Japanese manufactures. 3. The accumulation of higher skills in the core work force made "unskilled" labor scarcer and therefore more expensive, which enhanced the comparative advantage of lower-income countries with a less-skilled labor force and created a demand for imports produced by such labor. All three factors combined to prompt U.S. buyers to search out low-cost suppliers in faraway places.[40]

The prospects of emulating the NIC experiences thus is highly disputed and as noted a number of scholars has suggested that the East Asian NICs benefitted from unique external circumstances which are unlikely to be copied by other developing countries.

Bruce Cumings suggests: "In short, the developmental 'successes' of Taiwan and Korea are historically and regionally specific, and therefore provide no readily adaptable models for other developing countries interested in emulation."[41]

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[38] Frederic C. Deyo (ed.), The Political Economy of the New Asian Industrialism, Cornell University Press, Itchaca & London, 1987.

[39] Bruce Cummings, The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences, (originally printed in International Organization, 1984) in Deyo, Op cit.

[40] Robert Wade(b), Op cit. p.311.

[41] Bruce Cummings, In Deyo, Op cit. pp.81.

Stephan Haggard concludes: "States seeking to follow in the footsteps of the first wave of NICs not only face a more uncertain trade environment, but will need political capacities not widely found in the Third World,"[42] and "The current fascination with export-led growth has caused some analysts to assume that policies can be easily transplanted and that the success of some East Asian countries can be widely replicated ... I have suggested, however, that the East Asian experience resulted from a unique conjunction of domestic and international affairs."[43]

NIC experience suggests that success depends on the government standing above vested interests to help create the social and political infrastructure for economic growth. "Indeed, though it may sound paradoxical, one needs an effective government to create the market."[44]

The prolonged world recession which started in the early 1980s, the general decline in commodity prices, and the threatening signs of a return to international protectionism has thrust fundamental questions about the role of the state and economic policy-making back into the debate on development. The call for a reassessment of the role of the state in promoting economic growth might also be seen as a reaction to world-wide pressures from the multilateral institutions, the World Bank and IMF and to the more extreme versions market-oriented prescriptions of the neo-classical revival evident in the 1980s.

It is necessary to emphasize that the debate must be reopened, because this debate is not new at all. It started seriously with the catch-up theories developed by Alexander Hamilton in the beginning of the 19th century and, as mentioned above, was later developed by Friedrich List in Prussia. In the beginning of the 1950s a number of economists, later to be known as the ECLA school, fine-tuned the neo-mercantilist theory and established the basis for the strong performance of state-led industrial growth in several Latin American countries in the 1960s and the beginning of the 1970s.

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42 Stephan Haggard (a), The Newly Industrializing Countries in the International System, in World Politics, Vol. 38, No.2, january 1986, p.363.

43 Ibid., pp.369.

44 Robin Broad, John Cavanagh and Walden Bello, Development: The Market is Not Enough, Foreign Policy, Carnegie Endowment for International Peace, No.81, Winter, 1990-1991, p.156.

Experiences and important elements from this century-old debate have shaped the development strategies and economic policies of late-comers and have provided the input to the 'unique' success stories from Japan, Korea, Taiwan, and before them a number of European states.[45]

Therefore, the debate on the role of the state and how various development strategies tackle the external environment is relevant in the Southeast Asian context as well. Not as a kind of simple replication of the Japanese model or early British, American and German experiences with import-substitution, protectionism and selected industrial policies. But in the general theoretical context of how late-developing countries catch-up in a changing international division of labour.

Nevertheless, the circumstances in the international political economy were different under which the various countries developed, historically and contemporary, from the problems which policy-makers face today. Since the bulk of the developing countries won political independence several sets of international institutions have played major roles in molding and shifting the countries' domestic economic policies. Very little has been written on the process of policy formulation and decision-making options in developing countries, however, and even less on the interplay of national and international forces that affect the process.

Accordingly, three sets of international institutions are introduced here as the most powerful agents in the capitalist world economy influencing economic policy-making in developing countries:[46]

1) Private institutions, consisting primarily of transnational corporations (TNCs) and transnational banks (TNBs).
2) Core states and regions (Japan, United States and the E.C.) comprised by the former colonial powers. They exert influence through departments of treasury, state and overseas aid.
3) Multilateral institutions which in addition to the IMF and the World Bank, include the General Agreement on Tariffs and Trade (GATT), regional development banks like Asian Development Bank, and United Nations agencies.

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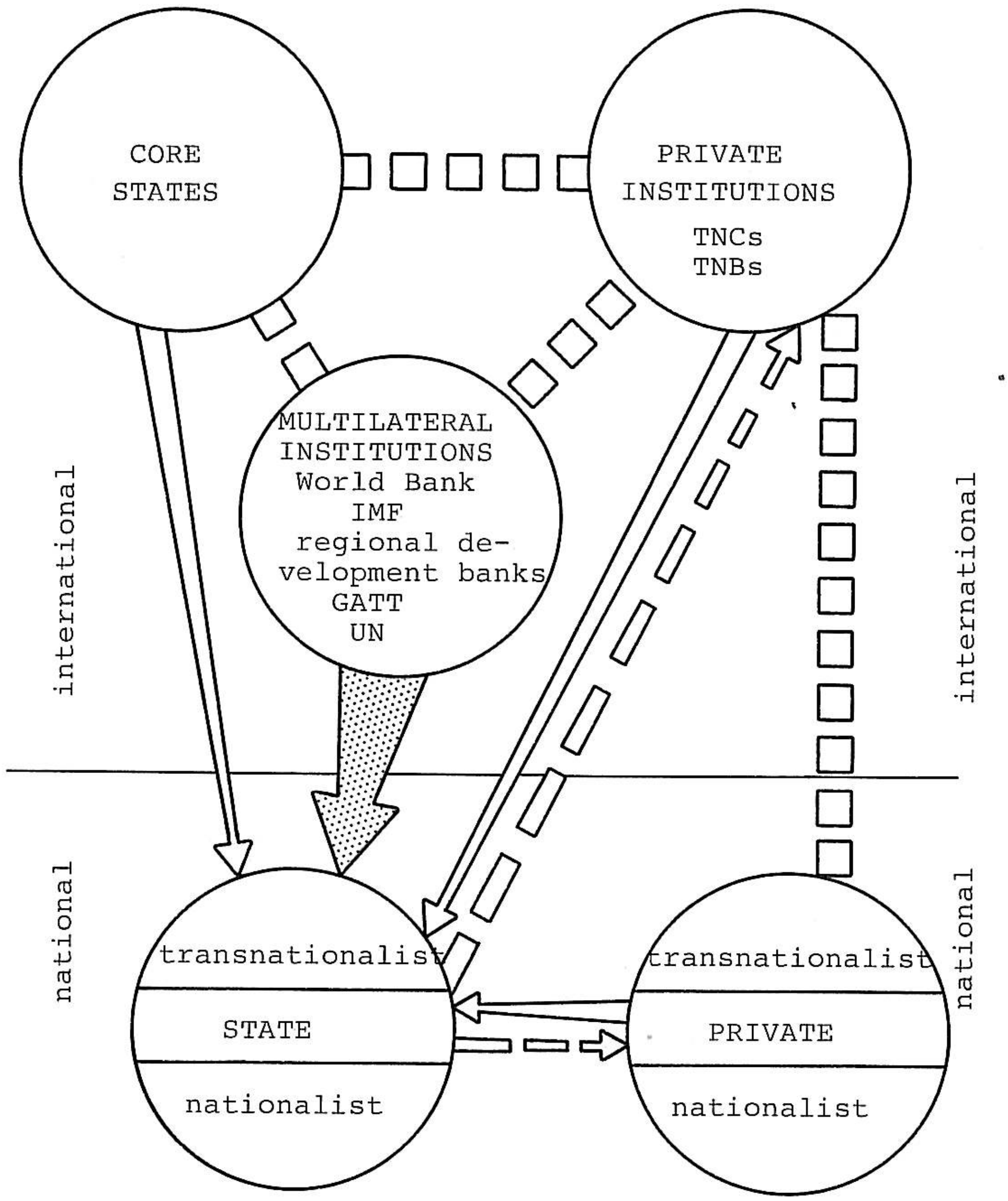
45 See among others Dieter Senghaas, The European Experience, Berg Publ., Leamington Spa/Dover, 1985.

46 Robin Broad, Unequal Alliance. The World Bank, The International Monetary Fund and the Philippines, University of California Press, Berkeley, 1988, p.6.

The dynamics of these three sets of international institutions and developing countries in policy-making is schematized in figure 1. In influencing economic policy-making in developing countries, each of the three sets interact with and nurtures a corps of technocratic bureaucrats who share a conviction of the importance of maximizing economic linkages with the world economy. Opposing those technocrats are a group of nationalist bureaucrats committed to developing the market first.

The purpose of this working paper is to apply this framework on a tentative analysis of economic policy-making in the ASEAN-4. However it is noteworthy to add, this brief and sketchy presentation is part of a larger research project. Thus, the findings presented here are preliminary and should be treated as such. In the appendix an example of a questionnarie is presented where the extended and detailed framework of the various influences on the policy-making process as illustrated in figure 2. (page 88) will be used as a guideline for a series of qualitative interviews to be conducted in Southeast Asia by the author.

Figure 1: External Influences on Policy Formulation



KEY

sets of institutions

internal factions

influence on LDC policy-making

repercussions of LDC policy-making

collaboration (formal and informal)

Source: Robin Broad: Unequal Alliance The World Bank, The International Monetary Fund, and the Philippines, University of California Press, Berkeley 1988.

Part II. Development Performance of the ASEAN-4

The previous argument showed why the emulation theories must be treated with caution and not be taken for granted. It also seems to be the case with the so-called flying geese pattern which merely looks like an ideological construction.[1] In fact, a big question-mark must be put in front of the statement that the explanation for Southeast Asian Would-be NICs high economic growth rates is their attempt to emulate the Japanese or South Korean development strategy.[2] On the contrary, in addition to the ones already mentioned, a number of prominent writers have stressed the unique institutional and domestic features of the 'Japanese Miracle' and the subsequent NICs development performance.[3]

In 1975 the Japanese economist Kojima explained that some of the main features of the rise of Japan to core status was based on xenophobia and a specific pariah-relationship with U.S. (as her former colony) getting rather unusual preferences: "Japan can be described as, at best, a reluctant host to foreign direct investment. This follows directly from the long tradition of Japan's suspicion of foreigners and wish to be independent of foreign control."[4] This is a cynical but substantially correct observation. Instead of foreign direct investment, Japan was successful in stimulating the massive inflow of foreign technology which in the eighteen years between 1950 and 1968 represented about 10.000 contracts and payments in excess of $1.4 billion. Technology inflow permitted the modernisation of old, and creation of new industries under extremely favourable conditions.[5] In fact, until 1969, all FDI had been subject to case-

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1 See Naoki Tanaka, Policy Coordination in the Asian-Pacific Region, pp.536-537, and especially the critique by See-Yan Lin, Panel Statement by See-Yan Lin, in Fukuchi and Kagami, Op cit. pp. 552-553.

2 The terms 'Capitalist Development State' and 'insulated state coalitions' suggested by Chalmers Johnson and Stephan Haggard, respectively, are not applicable as an explanation of high economic growth in the ASEAN-4. However, to a certain degree, the so-called technocrats and economic policy-makers in the ASEAN-4 are insulated in the domestic context but not from external factors.

3 Chalmers Johnson(a), MITI and The Japanese Miracle, Stanford University Press, California, 1982 and Chalmers Johnson(b), Political Institutions and Economic Performance: A Comparative Analysis of the Government-Business Relationship in Japan, South Korea and Taiwan, in Frederic C. Deyo (ed.) Op cit.

4 Lawrence B. Krause, Evolution of Foreign Direct Investment: The United States and Japan', in Jerome B. Cohen, ed., Pacific Partnership: United States-Japan Trade, Japan Society Inc., 1972, p.162, cf Kiyoshi Kojima, Japan and a New World Economic Order, Charles E. Tuttle Company, Tokyo, 1977, p.46n.

5 Kiyoshi Kojima, Op cit. pp.36.

by-case screening by Japan.[6] The major contents of each contract were made publicly available monthly. When the contracts were regarded as too restrictive, the government often intervened to modify the terms by means of administrative guidance. Many licensing agreements were indeed accompanied by restrictive marketing provisions.

Comparing with the experience of the ASEAN-4 it is striking to note that these economies have been highly dependent on FDI and even more important is the fact that, the role of the state in technology transfer is unclear. There is no screening process in any of the countries concerned and, "This sort of information is not published in most of the ASEAN countries."[7] The lack of a screening process and information indicates weak administrative guidance and strategic capabilities in the ASEAN-4.

In the words of Chalmers Johnson the Japanese-type-capitalist developmental state has four fundamental structural features: 1) stable rule by a political-bureaucratic elite that does not accede to political demands that would undermine economic growth or security; 2) cooperation between public and private sectors under the overall guidance of a pilot planning agency; 3) heavy and continuing investment in education for everyone, combined with policies to ensure the equitable distribution of national income; and 4) a government that understands the need to use and respect methods of intervention based on the price mechanism.[8]

Each of these fundamental features exist in the Japanese, Korean, and Taiwanese systems, although with differing weight, patterns of historical evolution, and trade offs arising from stressing one more than others. Although this is not the case of the ASEAN-4 where the capacity and autonomy of the state has severe external constraints which limit its room of manoeuvre, there are some similarities but also significant differences. These elements will be touched upon below.

1) The importance of political stability and insulation of planners and policy-makers against interference from domestic forces equals the Japanese experience in all the

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6 Sueo Sekiguchi, Japanese DFI and ASEAN Economies, in Sueo Sekiguchi (ed.), ASEAN-Japan Relations. Investment, ISEAS, Singapore, 1983, p.237.

7 It still remains unclear how trade in technology is performing and how government institutions intervene when the case is judged unfair. See Sueo Sekiguchi, Japanese Direct Foreign Investment and ASEAN-Japan Relation: A Synthesis, Op cit. pp.14 fn.24.

8 Chalmers Johnson(a), MITI and the Japanese Miracle, Op cit, and Chalmers Johnson(c), The Non-socialist NICs: East Asia, International Organization, Vol.40, No.2, Spring 1986, p.565.

countries concerned, except in the Philippines where the policy elite is highly infiltrated by business interests.

2) Evidence shows that the role of the pilot planning agencies in the ASEAN-4 has the same function as in Japan. However, the effect of policy implementation is different.

3) None of these special features have been successfully replicated, except in Malaysia, where one of the goals of the New Economic Policy (NEP) has been to upgrade the capacities of the poor Malay's through equity policies such as income-distribution and enhancing educational resources.

4) On this particular point all governments have tried more or less successfully to intervene in the marketplace through the price mechanism.

Domestic political stability, macroeconomic efficiency and openess towards foreign investment have made the four dynamic Southeast Asian developing economies among the most attractive to foreign investors in recent years. The importance of FDI in the economic growth of the ASEAN-4 is reflected in the pattern of FDI flows described by Tambunlertchai and Panachet,[9] but incapacities for bargaining is a serious constraint on economic policy-making.

Like other developing economies these economies have little influence upon the international and regional forces that effect their competitiveness and attractiveness; but government policy can be crucial in shaping this competitiveness and attractiveness. Hence it is relevant to discuss some of the common features of the NIC experience which are possible to copy.[10] The basic OECD elements are sustained high economic growth, rising average income, rapid industrialization (led mainly by exports), and an increased role in world trade. Both Malaysia and Thailand have already joined the established NICs in becoming prime targets of trade

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9 Somsak Tambunlertchai and Umphon Panachet, Foreign Direct Investment in ASEAN, in Soon Lee Ying (ed.), Foreign Direct Investment in ASEAN, Malaysian Economic Association, Kuala Lumpur, 1990, pp.59-91.

10 The OECD defined in 1979 the four following characteristics of NIC status as: 1) They are pursuing for the outward-looking policy (which means to promote growth through exports). 2) They are increasing the shares in industrial production and exports. 3) Domestically, they are increasing the shares of manufacturing industry in total production, total exports and total employment. 4) They are rapidly reducing the gaps in per capita income (real GDP) vis-a-vis the industrialized countries. OECD, The Impact of the Newly Industrializing Countries, Paris, 1979.

protectionism in Western markets, while (the pressure on) Indonesia and the Philippines have been smaller.

The growth of the ASEAN-4 countries can be attributed mainly to the role of the state and not ASEAN or its subsequent free trade area, AFTA. It might even be claimed that the most appropriate answer to the regionalization of the world economy has been a strengthening of state capacities and capabilities. This is illustrated by the extremely high rate of investment in physical capital. In this respect, some of the region's countries have followed the path trodden earlier by Japan. As a general rule, countries are able to sustain a brisk expansion if after their per capita income levels climbs above $1000, their fixed capital investment (the combined investment of the private and public sectors) remains in excess of 30 per cent of GNP. Such a high level of investment carries with it the risk of faster inflation and a deteriorating balance of payments, but it enables a dynamic pattern of development. It is noteworthy that in 1989 fixed capital investment as a percentage of GNP was 34.7 per cent in Indonesia, 31.0 per cent in Thailand, 29.6 per cent in Malaysia compared with 31.6 per cent in South Korea and 37.3 per cent in Singapore. (also table 3).

The important role of state policies is also clear from the priority given to growth related objectives, such as increasing productivity and competitiveness. The degree of state intervention in ASEAN in orchestrating export-led growth is particularly evident in the specific relationship between state and civil society (which will be touched upon in Part III). In other words, it would seem that states of the region have accorded the highest priority to economic growth and political stability.

Foreign investment fills the gap between domestic saving and investment. But since investment can be poorly allocated, high rates of domestic savings and investment are necessary but not sufficient conditions for economic growth.

Malaysia has long been considered as the most likely next Asian NIC because of its income level and industrial structure. Since 1988 it has recovered its long-held position as one of the top host developing countries for foreign investment, particularly in commodities and in export-oriented manufacturing. In Malaysia the upsurge in foreign investments is occurring alongside an active state policy to promote heavy industries behind protective tariffs.

Thailand was elevated to near-NIC status virtually overnight, thanks largely to heavy Japanese followed by Taiwanese investments in export-oriented manufacturing beginning in 1987.

Formerly the country used to be only a modest recipient of foreign investment among developing countries.

The Philippines has the longest history of conscious policies for promoting foreign investment and industrialization, beginning in the late 1940s, but also the worst growth record in the region in the 1980s and 1990s. In the aftermath of two decades of Marcos corruption, misallocation of resources, and mismanagement, the government is now 'looking East' trying to emulate the experience from the NICs.

Indonesia's present economy is more outward-looking than earlier. In its 1987 *World Development Report*, the World Bank singled Indonesia out as an example of a developing economy which was overcoming difficult problems through prudent policy choices. However, Indonesia's performance does not match the more spectacular achievements of the NICs or Thailand and Malaysia.

These four economies differ greatly in terms of income levels, industrial development and to some extent government policy, differences that enhance the value of a comparative study. But all have been exposed to the same external and domestic, economic and political forces that have enlarged foreign investment flows in the region (including outward investment from the NICs) since 1987. Two common factors also influence them. First, the Japanese takeover of the U.S. role as economic mentor and largest economic investor in all four countries in the 1970s and mid-1980s, has been pivotal. The second factor is an increasingly important role of local private enterprise, dominated by the ethnic Chinese business community. The recent wave of foreign direct investment in these countries both reflects and contributes to high economic growth.

a. Economic Development in Malaysia, Indonesia, Thailand and the Philippines - The Four Economies and their Recent Performance

Malaysia, Indonesia, Thailand and the Philippines differ considerably from each other in economic structure, culture and religion, although they share many similarities when compared with most countries in the developing world.

Despite these differences, all four countries, except the Philippines, have been and are still politically stable, a condition highly attractive to foreign investment, to which they have also been much more welcoming -though selectively so- than have most other developing countries. Like other developing countries, these four have strong state participation and intervention in their economies, but they also have important local private sectors - stronger in Thailand and the Philippines than in Indonesia and Malaysia, where state and transnational enterprises are more dominant. In all four countries the local private sector is dominated by ethnic Chinese citizens, though the proportion of ethnic Chinese in the population varies from only 0.8 million in the Philippines, 7.2 in Indonesia, 5.8 million in Thailand and 5.2 million in Malaysia.[11]

The general economic development of the ASEAN-4 since the 1960s can be characterized as follows: Import-substitution for the 1960s, import-substitution (ISI) and export-orientation (EOI) for the 1970s, and structural adjustment for the 1980s and 1990s. However as emphasized by a number of scholars, the history of industrialization cannot be neatly divided into ISI and EOI periods. Nor does a shift towards priority for EOI necessarily imply that ISI becomes inconsequential, as evidenced by the still flourishing import-substitution sectors in Korea and Taiwan. Nevertheless, crisis points can be identified which may be considered as crucial watersheds in the consideration of economic policy.[12]

Table 1 presents comparative data on the four economies with Japan and the NIC's. It summarizes such basic indicators as population, nominal GNP and trade figures in a comparable way. From the left part of the table we can see that total economic size of the ASEAN-4 in terms of nominal GNP is only 8 per cent of Japan and nearly half the size of the combined nominal GNP in the NICs, while average income of the ASEAN-4 in terms of per capita GNP is only 3 per cent of Japan. It is also important to note that the smallest NIC, Korea, with a population of 42.8 million in terms of nominal GNP is more than 2 times larger than Indonesia with a population of 179.1 million. After the collapse of the Soviet Union Indonesia is the fourth most populous country in the world.

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11 Economist 18 July, 1992.

12 Richard Robison, Richard Higgott and Kewin Hewison, Crisis in Economic Strategy in the 1980s: the Factors at Work, in Richard Robison, Richard Higgott and Kewin Hewison (eds.), Southeast Asia in the 1980s - The Politics of Economic Crisis, Allen & Unwin, Sydney, 1988, p.7.

Table 1: A Comparison of Japan, the ASEAN-4 and NIC's (1990)

	Population (million)	Nominal GNP ($ billion)	Per capita GNP ($)	Exports[a] Total ($ billion)	Exports[a] To Japan (%)	Imports[a] Total ($ billion)	Imports[a] From Japan (%)	Japanese investment[b] ($ billion)
Japan	123.5	2,990	24,213	286.3		233.8		
ASEAN-4:								
Malaysia	17.9	41	2,274	29.0	15.3	27.0	24.1	3.2
Indonesia	179.1[d]	94[d]	525[d]	25.7	42.5	21.8	24.9	11.5
Thailand	57.2	79	1,408	23.1	17.2	33.0	30.7	4.4
Philippines	61.5	44	714	8.7	19.9	13.1	18.4	1.6
NIC's:								
Singapore	2.7	35	13,059	52.5	8.8	60.6	20.1	6.6
Hong Kong	5.7	71[c]	12,245[c]	82.2	5.7	82.5	16.1	9.9
Taiwan	20.4	162	7,926	67.2	12.4	54.7	29.2	2.7
South Korea	42.8	238	5,560	65.0	19.5	69.8	26.6	4.1

a. Customs-clearance basis. **b**. Cumulative direct investment, 1951-90. **c**. GDP. **d**. 1989. **e**. Estimate. **f**. 1988.

Even more important are the trade statistics. They reveal that the ASEAN-4 import more from Japan than they export in per cent, while combined Japanese FDI on a cumulative basis from 1951-90 is extremely significant compared to the nominal GNP of each country.

Table 2 shows that the ASEAN-4 have sustained excess GDP growth rates for over 20 years with one interruption during the major recession in 1985/86. The decline in commodity markets was a common factor for falling growth rates in mid-1980s. All four countries experienced strong recovery and growth from 1987 to 1990. Inflation was low in the 1980s but is growing. Because of differential achievement in savings and investments and budget policies, the ASEAN countries have experienced divergent inflation rates. These averages, however, mask the considerable efforts made by Indonesia and the Philippines to bring down inflation rates substantially by the end of the eighties.

Table 2: GNP - and Growth in Inflation in the ASEAN-4

	GNP Growthrates		Inflationrates	
	1971-80	1981-90	1971-80	1981-90
ASEAN-4 (average)	7.4	5.2	13.6	7.5
Indonesia	7.7	5.5	17.5	8.6
Malaysia	7.8	5.2	6.0	3.2
Philippines	6.0	1.0	14.8	13.0
Thailand	7.9	7.8	10.0	4.4

Source: Asian Development Bank, Asian Development Outlook, 1992, Manila, Philippinerne, Tabel A1 and A9.

Table 3 shows that, with the exception of the Philippines, the ASEAN-4 have high rates of gross domestic investment and saving. In the past three years, Indonesia and Thailand have had rates of investment exceeding their averages for the last decade while, Malaysia and the

Philippines had lower averages. Over the past decade, the ASEAN-4, with the exception of the Philippines (19 Per cent) and Thailand(24.5 per cent), had savings rates exceeding 30 per cent. In the past three years, savings rates increased for all the economies except the Philippines'. As a result of their strong savings performance, only the Philippines and Thailand are net borrowers (1 per cent and 2 per cent of GDP, respectively, in 1989).

Table 3: Saving - Investment Gap

Country	1981-90		1988-90	
	Savings[1]	Investment[2]	Savings	Investment
Malaysia	33.2	30.8	34.8	29.3
Indonesia	31.8	30.2	36.2	33.8
Thailand	24.5	26.6	31.0	31.7
Philippines	19.0	20.0	17.4	18.0
Singapore	42.3	42.0	42.8	36.3

Source: Asian Development Bank, *Asian Development Outlook, 1991*, Tables A7 and A8.

1): Gross Domestic Savings, percent of GDP.

2): Gross Domestic Investment, percent of GDP.

Debt-service ratios (as a percentage of exports of goods and services) are modest as revealed in table 4, especially in comparison with Latin American countries. However, the debt-service ratios deteriorated for Indonesia, Malaysia and the Philippines but improved for Thailand.

Table 4: **External debt ratios**

	1980	1989
Malaysia	28.0	51.6
Indonesia	28.0	59.4
Thailand	25.9	34.1
Philippines	49.5	65.3

Source: World Bank, *World Development Report 1991*, Table 24.

In 1989 all the ASEAN countries concerned were in deficit (see table 5). Thailand had a deficit from 1980 to 1987; but since then it has enjoyed a growing surplus. Malaysia's budget for the 1980s has been in deficit but this has been trimmed to more manageable levels in recent years. Indonesia has also been successful in reducing its budget deficit. With the exception of 1988, the budget deficit in the second half of the 1980s was less than for the first half. Under the Aquino Government, the Philippines have also managed to trim its budget deficit. In 1989, however, the Philippines budget deficit again grew to 4 per cent.

Table 5: **Budget Surplus-Deficit (percentage of GNP)**

	1990
Malaysia	- 6.0
Indonesia	- 5.5
Thailand	4.9
Philippines	- 4.0
Singapore	2.9

Source: ADB, *Asian Development Outlook*, Table A29.

All four economies are relatively outward-oriented, with high ratios of total trade and exports to GDP. Growth in manufacturing exports versus agricultural commodities has been high.

So far this investigation of the current development performance of the ASEAN-4 in terms of the OECD definition of NICs has revealed the following. All four economies are relatively outward-oriented, with high ratios of total trade and exports to GDP and they have adopted an outward-looking policy for growth. Growth in manufacturing exports versus agricultural commodities has been high and the manufacturing industry has also surpassed the agricultural sector in terms of production. However there are still significant problems with the income-gap vis-a-vis the core states and furthermore there are major unresolved problems concerning employment, poverty, environmental degradation, infrastructure and education.

The recent impressive growth record of the ASEAN-4 has labelled these economies as Would-be NICs, or prospective candidates, of this exclusive club. Some of the factors militating against their progression to NIC status have already been discussed in addition to the possibilities of emulating elements from the Japanese and NIC experience. The rise in protectionism, crowding-out, and historical specifity. However, each single country has its own particularities, historical background and development performance.

b. Development Performance in Malaysia

Compared with the other ASEAN-4 economies Malaysia is the only one that approaches Singapore's advanced levels of political and economic development. The evolution of technocratic and social mobilization capabilities in this state has been hindered by a deep ethnic cleavage between the relatively backward but politically dominant Islamic Malay majority and the very large, economically dominant but politically divided Chinese community. The executives, the bureaucracy, and the legislature in this representative system of government operate under racial stresses aggravated by an economic policy that seeks to upgrade the status and living conditions of the Malays while limiting educational and employment opportunities for the Chinese. Because the policy is only moderately effective it is a source of Malay dissatisfaction as well as Chinese resentment. Hence there are conflicting pressures for change. While these affect rivalries between factions in the leading Malay political party -the United Malays National Organization (UMNO) - they present political risks for foreign firms. There is considerable openness to FDI, but the established growth strategy, in part because of its commitments to improve the majority of the Malays, emphasizes the promotion of export-oriented domestic private sector development.

The NEP (New Economic Policy), which had dictated Malaysian economic development for twenty years, was finally laid to rest with the unveiling of the NDP (New Development Policy) in June 1991. This was followed by the OPP2, 1991-2000 (Second Overall Perspective Plan) and the SMP (Sixth Malaysia Plan). Together, these two documents contain the Malaysian blueprint for future economic development and bring Malaysia to a developed country status. The NDP pledges to eradicate poverty irrespective of race and to restructure society to reduce the identification of race with economic function. Under the OPP2 there are plans to restructure exports to emphasize manufactured goods and increase the importance of the service sector. Privatization - of both government services and other public sector commercial - is another feature of the OPP2. Under the SMP, growth targets have been raised to an average annual rate of 7.5 per cent. Emphasis will be placed on reducing unemployment through job creation, and raising per capita from M$6.400 in 1990 to M$10.200 in 1995.

Because of its manufacturing export success, Malaysia has been hailed as the next NIC, a label it does not covet for fear of loosing its GSP privileges.[13] Even though, the World Bank has repeatedly drawn attention to the continued high level of government expenditure and parastals.

c. Development Performance in Indonesia

Indonesia, the largest of the ASEAN-4, with rich resources that could support a major diversified industrial establishment, contrasts politically with Malaysia because it is under a strongly authoritarian military regime. Methods of personal rule and paternalist practices seriously hinder administrative development and are responsible for a low level of technocratic and bureaucratic management. Major social groups are alienated by these failings and by repressive controls, as well as by the regime's manipulation of organizations. Under General Suharto, and the regime's officially sponsored political party, Golkar, the military elite has been stable, but it is also widely recognized that, the legitimacy of Sukarto's New Order government is dependent upon its capacity to deliver sustained economic growth.

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[13] As Malaysia's Prime Minister Mahathir puts it in rather dramatic terms "we should not be obsessed to reach NIC status we will be under all kinds of pressures from the rich nations. If Malaysia achieves NIC status, it is very likely we will be pressured to the point that we will collapse. Our efforts to raise our heads high will be futile because every time we try to do so, we will be pushed out". *Straits Times,* Singapore, July 31, 1989.

Import-substituting policies has been promoted for about two decades, with official favour to many domestic firms sheltered behind highly protective barriers, however, recently ISI has been combined with increasing export-orientation. The leadership has demonstrated a basic commitment to industrial growth and economic development.

While Indonesia's development performance does not match the more spectacular achievements of Malaysia or Thailand, the 1980s, and particularly the latter 1980s, have seen rapid economic growth taking place. Crucial to Indonesia's economic performance has been a sustained programme of economic policy-reform. Under heavy pressure from the World Bank and IMF a number of deregulation and privatization packages have been implemented. However as noted by Sjahrir and Brown it is difficult to tackle. Not only are there government departments that have an interest in maintaining the *status quo*; there are holders of political power who also are supportive of the *status quo*. With an eye on the development of the capital market, in which Conglomerates owned by Indonesians of Chinese descent have played a major role, these political interests will also use racism to prevent state-owned enterprises from becoming privatized or more open to public scrutinity. "In this context it is very difficult to imagine a privatization process that could go as smoothly as the implementation of the thirteenth deregulation package, the Minister of Finance's decision dealing with state enterprises."[14] In fact new presidential decisions in the late 1980s and a major reshuffle in the ministerial set-up has put back new ISI policies with emphasis on strategic industries', parastals like state-owned aircraft industry, electronics and other high-tech industries, but also industries like steel and shipbuilding.

d. Development Performance in Thailand

Thailand ranks above Indonesia in terms of overall development, despite a history of instability in the regime form. The Thai army-dominated bureaucracy operates with considerable responsiveness to major social groups; it accepts a measure of formal accountability to the representative assembly; implements policy through a relatively developed administrative structure; maintains a significant level of stable conservative performance in macro-management of the economy.

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14 Sjahrir with Colin Brown, Indonesian Financial and Trade Policy Deregulation: Reform and Response, in Andrew MacIntyre and Kanishka Jayasuriya (eds.), The Dynamics of Economic Policy Reform in South-East Asia and the South-West Pacific, Oxford University Press, Singapore, 1992, pp.136-137.

In this setting the basic developmental issue is the military establishment's assertion of a virtual entitlement to control the executive. Thailand's present regime form has been labelled various ways: semi-democratic, bureaucratic authoritarianism with limited pluralism and bourgeois praetorian political system.

The Thai government runs a conservative monetary policy but an expansionary fiscal policy with large public sector deficits which, after a period of heavy external borrowings in the late 1970s and early 1980s, are now financed mainly by domestic borrowing. The savings rate is low and there is a large gap between savings and investment, resulting from an imperfectly developed capital market. The formal banking system is closely held by a few Chinese family business conglomerates.

Thailand has similar to Indonesia been reluctant to implement World Bank structural adjustment recommendations. However, Government expenditure has generally moved away from regional and rural development and firmly towards the creation of an environment suitable for major industrial expansion.

The sixth plan (1987-91) was chiefly directed at the stabilization of the economy, but there is still strong support among the technocrats for a policy of growth maximisation, while the bureaucrats favour stability.

The economic problems of the 1980s have brought into the open the conflicts between ISI and EOI. Thus, the distinction between ISI and EOI has never been satisfactorily clarified. High levels of tariff protection remain despite the pressure exerted by the World Bank and IMF, and conditions of the SALs. Indeed in many areas control has increased in an effort to reduce the dependence on imported components.

e. Development Performance in the Philippines

The Philippines is at a somewhat lower level of administrative and bureaucratic development and industrialization. The reason is not only because of its experience of political decay during the Marcos regime, but also a result from the pressures on the public sector from the World Bank and IMF.

The Philippines has largely been a private-sector-oriented economy. Its effective protection is among the lowest in the South East Asian region; it has liberalized trade, the financial sector, and privatized state-owned enterprises more than any of its good performing neighbors.[15] These attributes have been coloured by the country's continued dominance by the USA, recurrent economic crises and, from 1961, subservience to the IMF. "Nowherelse in Southeast Asia has the influence of the former colonial power remained so strong."[16]

Since the Aquino government came to power in 1986 a measure of economic stability has been achieved through debt rescheduling and the extension of IMF and World Bank facilities. There have been limited signs of renewed confidence on the part of foreign investors slow, but uncertain, economic growth. Per capita GNP, which fell by 20 per cent between 1978-79 and 1985-86, had recovered to 90 per cent of the 1979-80 level by early 1989. The political situation remains extremely uncertain and the limited recovery has to be balanced against deteriorating balance of payments and increasing foreign debt.

From the perspective of the elite, the paramount criterion has been to maintain amicable relations with the external environment - the commercial banks, the multilateral lenders, and the United States. The reasons at times reflect particular interests of players. But they also reflect the system's traditional dependency on external resource inflows. This external assistance provides the means by which politicians can maintain and enhance their positions. It allows the government to avoid hard choices with respect to economic policy. And it is a substitute for the lack of dynamism within the economy.

During the New Ramos-administration in the 1990s a Look-East policy has been adopted, however it remains to be seen if it is more than a "paper-tiger".

f. The Four Economies Compared

With exception of the Philippines, the pursuit of growth-oriented policies has been facilitated by relatively long periods of political stability and a relatively efficient and pragmatic functioning bureaucracy. Although the political stability in most cases came with repressive states, the stability allowed them to maintain consistent policies over a long term period. There is also a hierarchial relationship between the developmental states and the private

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15 World Bank, Sustaining Rapid Development, East Asia and the Pacific Regional Development Review, Washington, 1993, p.16

16 Chris Dixon, South East Asia in the World Economy, Cambridge University Press, Cambridge, 1991, p. 200.

sectors which furthered growth and stability. Finally the repression of the labour sector has had paramount significance.

On the subject of production-structure, industrialization and trade patterns it is convenient to close this section by looking at the supply and demand sides.

Looking at the supply side first, manufacturing for export is a common and very important element in all four countries' development. Expansion of manufactured exports has been, and will be, one of the major factors providing changes in the trade scene. The ASEAN-4 are behind the NICs in respect to export industrialization rates (the proportion of manufactures in total exports). In 1985, it was above 90 per cent for the NICs . In Malaysia, the rate was only 27.3 per cent in 1985. However, it reached 44 per cent in 1988. In Thailand, the rate was 39.3 per cent in 1985, but surpassed 50 per cent only two years later. The trend of export industrialization is different for Philippines. Its rate was already relatively high in 1985. However, after 1985 the speed of export industrialization seems to have slowed down. It is noteworthy that Indonesia with her rich natural resource endowment, also follows the export industrialization path, although still at a lower stage than other ASEAN countries.

Closely related to the supply side is its counterpart the demand side of market outlets. Clearly the bulk of ASEAN-4 exports 59.9 per cent found their outlet in Japan, U.S. and E.C. In the case of manufactured exports the ASEAN-4 exported 58.3 per cent of their products to the same countries as stated above. The importance of the U.S. market is pronounced. However, the ASEAN-4 exports more goods in total to Japan, due mainly to its resources imports. For their manufacture export however, the U.S. is still the largest market, absorbing 29.8 per cent of their products.

Some of the major challenges facing the ASEAN-4 relate to the incorporation of the relatively large and often poor, agricultural population into the growth process. Although there may have occured a structural shift into industry and services, the bulk of the population still remains in agriculture. From the capital cities, the economies may appear to be vibrant and modern. However several studies indicate the extreme disparities in per capita income between Kuala Lumpur, Jakarta, Bangkok, Manila, and rural areas. Furthermore the problem of an inadequate infrastructure and the lack of skilled labour possess a major hindrance towards further growth. Finally, the problem of technology is of paramount importance and the same thing is observed with regard to rent-seeking or directly unprofitable profit-seeking.

Part III. Explanation of State-Strategies in the ASEAN-4

In considering why the ASEAN-4 have had such strikingly better growth rates than most other parts of the world over the last decade, except the NICs, as well as an impressive level of real growth in capital formation, we deal with a so varied set of political factors in each case that the search for some explanatory hypothesis or model or paradigmatic explanation is made difficult. Anyhow, there are a number of common patterns in the four countries of which the state-building pattern rather than nation-building per se has been most outstanding and as mentioned before, the external factors and timing has had an additional determining influence on the process of policy formulation, economic policies and the subsequent growth pattern.

One similarity is their high dependency on external capital inflows, knowledge and technology. Especially the question of R & D, and a continuing upgrading of capabilities and capacities in technology, science and research are among the major reasons why the ASEAN-4 lag behind the NICs and Japan. As Yoshihara, a long-term observer of state-business relationships in Southeast Asia notes: "Thus, none of the ASEAN countries can join the NICs on their own because they lack their technological bases. Their industrialization has been largely 'technologyless' because they failed to commit themselves to progress in science and technology."[1] Indeed, one of the reasons for the late adjustment in the Would-be NICs compared with the NICs to new developments in the international markets is that patterns of capitalism in Southeast Asia do not distinguish clearly between public and private interests or between political and economic competition.[2] However as noted earlier, in both Indonesia, Malaysia and Thailand the formulation process of economic policy-making has been developed within insulated and relatively autonomous policy arenas in the domestic context.

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1 Yoshihara Kunio, The Rise of Ersatz Capitalism in South-east Asia, Oxford University Press, Oxford & New York, 1988, p.118. For a similar pessimist view see also James Clad, Behind the Myth. Business, Money and Power in Southeast Asia, Unwin Hyman, London, 1989.

2 This is evident in the literature on the role of traditional oligarchies in economic policy. See Yoshihara Kunio, Op cit. See also Richard Robison, Indonesia: The Rise of Capital, Allen and Unwin, London, 1986; Suehiro Akira, Capital Accumulation in Thailand: 1885-1985, Chulalongkorn University, 1988.

a. Developmentalism in the Domestic Context

If the scope of analysis is limited to the domestic arena, the cases from the ASEAN-4 suggest that some widely accepted views of the role of the state in development should be challenged.[3] First, the state in the ASEAN-4 has been vital to both economic growth and political stability. Despite some liberal economic policies, the weight of state intervention has been heavy and consistent. In addition, state elites have had to struggle to construct and maintain political stability, which is not simply a derivative of found cultural values. The state has been a central and essential actor in economic and political arenas.[4] Even after the so-called deregulation in the late 1980s and the beginning of the 1990s little has changed. Only on the surface it appears that, to satisfy demands from the international institutions, the World Bank, IMF and the like, some peripheral activities have been sold out. A high rate of protectionism of the sensitive sectors is still reinforced throughout the ASEAN-4.

Peasant organizations, the working classes and trade unions have been excluded from effective political action in the ASEAN-4 countries the last twenty-five years, as in the NICs, although they were very prominent during the earlier years of turbulent mobilization politics in the immediate post-colonial period. According to Crouch, business classes have also largely been excluded although with some variation.[5] Moreover, female labour has been subordinatedly used as a stable and cheap reserve-army especially in the all-important export-oriented sector; electronics and semi-conductors.

Of a list of factors explaining why the ASEAN-4 have not achieved the phenomenally high growth rates of the NICs, one point is outstanding: *The dominant position of Chinese Businessmen*. This has been an issue of great sensitivity and sometimes politically explosive potential in all the ASEAN-4 countries. None of the NICs has ever had to cope with anything

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[3] Neo-classical and NIE economists have attributed growth in the East Asian NICs and in Southeast Asia to government success at "getting prices right", at letting free market-based price signals determine the most efficient allocation of resources for national economic growth. See for example, Bela Belassa, The Newly Industrializing Countries of the World Economy, Pergamon, New York, 1981, and William E. James, Siji Naya, and Gerald M. Meyer, Asian Development: Economic Success and Policy Lessons, University of Wisconsin Press, Madison, 1989, and Marcus Noland, Pacific Basin Developing Countries: Prospects for the Future, Institute for International Economics, Washington D.C., 1990.

[4] Donald K. Crone, State, Social Elites, and Government Capacity in South East Asia, World Politics, Vol.XL, January 1988, No.2, p.268.

[5] Harold Crouch, Domestic Political Structures and Regional Economic Co-operation, Institute of Southeast Asian Studies, ISEAS, Singapore, 1984.

like this problem. The presence of the various Chinese minorities in Southeast Asia has been a mixed blessing.[6] While their entrepreneurial talents have been beneficial in contributing to the opening up of the regions and societies where indigenous enterprise and capital were scarce, the social and political problems associated with the Chinese minorities are quite disproportionate to the numbers involved because of their high socio-economic status. All four governments have, at times sacrificed efficiency-maximizing considerations for the imperatives of economic nationalism involving measures disadvantageous to ethnic Chinese. Fortunately, measures of this kind have been less blatantly discriminatory during the last twenty years or so (except in Malaysia) than in the earlier post-war years; in fact, most of the heat has gone out of the problem in Thailand and the Philippines. However, it will take a long time before it ceases to be a constraint upon government policy-making in Indonesia, Malaysia and perhaps in Thailand,[7] and it is because of the post-colonial significance of the ethnic Chinese, as well as of foreign capital, that economic nationalism remains a pervasive force in the ASEAN-4.[8]

As Mackie pointed out in 1988 the governments of the ASEAN-4 are shielded against direct pressure from business groups, their policies being determined more by bureaucrats and technocratic specialists than by clamorous politicians or parties representing sectoral interests.[9] However the role of Chinese business-clans in the economic growth and accumulation of capital in the region as a whole, should not be underestimated.

Many business studies on Chinese businesses confirm the peculiar relationship between norms, values and institution in East Asia. The ethnic Chinese business culture differs from the business culture of the West on a number of subjects.

In the U.S. it is traditional to deploy batteries of lawyers to work out voluminous contracts specifying in enormous detail how hypothetical circumstances may be handled in future. A change or unexpected circumstances require altered contracts - and more lawyers. In East and

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6 On the Southeast Asian Chinese, see William Skinner, Chinese in Thailand: An Analytical History, Cornell University Press, Itchaca & New York, 1957 and M. Somers-Heidhues, Southeast Asia's Chinese Minorities, Longmans Southeast Asia Series, Hawthorn, 1974.

7 For an explanation on the influence of the Chinese ethnic factor on regime- and state-form in Thailand see Johannes Dragsbaek Schmidt, State and Democracy in Thailand, (forthcoming) Copenhagen Papers on East and Southeast Asian Studies, Copenhagen University, Denmark.

8 J.A.C. Mackie, Economic Growth in the ASEAN Region: The Political Underpinnings in Achieving Industrialization, Helen Hughes ed., op cit.pp.297-298.

9 Op cit. pp. 293.

Southeast Asia where litigation does not play so prominent a role, there would typically be taken greater care in the early stages, to investigate the overall circumstances rather than the strict legalities, of a possible agreement. Once made, there is an implicit agreement that the relationship must be flexible, that risks must be shared, and that details can be worked out when required, provided there is mutual trust and a genuine commitment; if trust is breached, it is understood that the relationship will be terminated.

Many Overseas Chinese firms have no truck with written contracts, reasoning that if you need a contract to hold a man to his obligations you ought not be doing business with him at all. A company will place a small order with a new supplier or subcontractor as a test of reliability and integrity. Ample opportunity is often deliberately given for cheating. Trust, and the size of the orders, build up gradually over many years. Lacking enforceable contracts, overseas Chinese businessmen cannot afford to be aggressive competitors who seek to screw the best deal they can out of their suppliers and customers. They need instead to negotiate deals where both parties benefit, if possible equally. This, above all, is why western and overseas Chinese businessmen find themselves speaking two different languages. The idea that everybody can be a winner is a strange one to western firms--and business schools.[10]

The role of Chinese business in the ASEAN-4 is still limited, not only with regard to potential influence on economic policy formulation but also at the implementation stage. Despite the fact that there are considerable differences in the detailed set-up of domestic players and their impact on the changing regime forms, the means by which the state apparatus in each country rules is basicly the same.

In Malaysia the basic mechanisms of control are co-optation and collaboration, and the state's considerable autonomy derives from the breadth of the underlying elite support, as well as from structured mass support and the construction of a strong interventionist state.[11] The bureaucracy plays a central and effective role; some assert that it controls a state-dominated society, supervising and "closely administering" state policy.

By contrast, the Thai and Indonesian states are ruled by narrowly based regimes with substantial degrees of coercion. The result of narrow coalitions and coercive control in both Thailand and Indonesia is that the state is dominated by powerful groups, which limits state capacity. But in terms of policy-making technocrats are highly insulated. In the Philippines

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10 The Economist, April 28, 1984, pp. 82-83.

11 On this see, for example, Donald K. Crone, op. cit. pp.252-268.

in both the Marcos and post-Marcos period, the state was characterized by a narrow elite coalition and coercive control resulting in a wide-ranging incapacity of the state.

As a final point the "crowding out" effect is very important. The ASEAN-4 and other developing countries largely pursue the same strategies of export-orientation and consequently the market of the core becomes swamped. The result being increased competition and encouraging protectionism. Maybe, there is room for 4 NICs but not 40. The experience from Singapore's 'choice of the EOI-strategy' shows it was feasible because of opportune historical conditions, not because this strategy made universal sense.[12]

b. State Capacity and the External Sector. Technocratic Versus Bureaucratic Responses

When the scope of analysis is extended to include external factors another picture emerges which certainly shows either a successful emulation or implementation of a strategy of 'guided economy' or 'capitalist developmental state',[13] if at all, it is fruitful to make this kind of comparison.

The leading theorists of the International Monetary Fund and the World Bank, being more - than - passionate supporters of the neo-classical and free market theory of rapid growth, have prescribed liberalization and privatization as the cure against all evils of state intervention. In order to secure the most rapid development which their circumstances can allow, the developing countries must aim to integrate the domestic economy more completely into the international economy and reduce the extent of government "interference" in the market. "If governments do not see reason voluntarily, the international agencies are justified in obliging them to do so in the best interest of their own citizens as well as the world economy as a

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12 See Garry Rodan, The Political Economy of Singapore's Industrialization: National State and International Capital, Macmillan International Political Economy Series, Houndmills, Basingstoke, Hampshire and London, 1989, p.208. To basically underline the argument Rodan concludes: the PAP state has played a crucial role in helping both to shape comparative advantage and facilitate its realization and exploitation. The recent policy revisions effectively recognize, however, that even where a state enjoys the relative political autonomy which affords such a role, there are objective constraints to the seduction of international capital, particularly when the factors at work in shaping the world economy are constantly changing. Op cit. pp.205.

13 Gordon White and Robert Wade, Developmental States in East Asia, Macmillan, London, 1988, and Robert Wade(a), Op cit.

whole."[14] The problem is, that these and other neo-liberal economists shy away from subjecting their beliefs to serious empirical test, yet are powerful enough to have these beliefs widely accepted, especially via international financial institutions like the IMF and the World Bank.[15]

Recent experience from the NICs shows that even effective policy reform and macroeconomic stability has not necessarily reduced the role of government in the economy. The dramatic experience from the changes in Eastern Europe and USSR have heightened awareness of the state's role in building as well as maintaining market institutions. In the Would-be NICs there is a significant new recognition of different forms of resistance to changes brought by economic policy-makers. These segments are often found in the private sector, domestic as well as foreign owned, resisting any effort to change policies i.e. liberalise under World Bank or IMF disguise.

A major phenomenon amongst authoritarian regimes of the Third World is the emergence of a technocracy tasked with the formulation and the implementation of development strategies of their respective countries. Also referred to as experts of the science and management of development planning, the technocracy has emerged as one of the most effective agents of capitalism.

The concept of "technocracy" emerged in the 1950s as a spin-off of the Keynesian revolution which placed emphasis on the role of government intervention in the economy. The technocracy was looked upon as a chosen few who had expertise in economics management and thus could take the lead in this endeavour on behalf of the government. As developed further by the International Monetary Fund and the World Bank in the 1960s, the technocracy was made to look at itself as an elite corps of experts who have the last word in development planning.[16] An important aspect cultivated from the ideology of the technocracy is a distaste for politics which is perceived to be "irrational" and thus anathema to the development of "scientific expertise". The idea of a technocracy gained prominence during the 1960s when

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14 See the Introductory chapter in Robert Wade (a), Ibid.

15 Robert Wade(b), Eastasia's Economic Success - Conflicting perspectives, partial insights, shaky evidence, World Politics, 44 (January 1992), p. 275.

16 Walden Bello, David Kinley and Elaine Elinson, Development Debacle: The World Bank in the Philippines, Institute of Food and Development Policy, California, 1982, p.28.

the Kennedy Administration relied on the technocracy to compose the Council of Economic Advisers which was to provide a model of "smooth, top-down economic management."[17]

The trend towards the appointment of technocrats into key government agencies in the ASEAN-4 was also most significant in the 1960s although the Nationalist government in China during the 1920s and 1930s also appointed 'industrial policy-makers' with a considerable autonomy from politics. The philosophy of these technocrats alias industrial policy-makers and economic decision-makers was summarized as follows by one of Chiang Kai-Shek's senior officials: "Governments and political forms are transitory, the problems facing a nation are not."[18]

The basic line of difference in the definition between bureaucrats and technocrats suggested here is a fundamental one, which also reflect the competition among various ways to approach and understand why some East Asian economies are successful and others, mainly in the Western hemisphere, are not. The technocrats are influenced by the U.S. perspective as conceptualized in liberal economic thought while bureaucrats within the same bureaucracies and state administrations contrast this kind of reasoning by their interest in the Japanese perspective on guided capitalism, plan rationality and neo-mercantilist developmentalism.

The interests of developing East Asian economies have been affected by a schism between the liberal American foreign economic policy, but increasingly domestic protectionist trade policy, and even more by Japanese neo-mercantilism. The liberal U.S. approach has sought to draw the East Asian NICs and the ASEAN-4 into an increasingly open regional trading pattern and has been somewhat insensitive to the desires of these states to protect their emerging industries.

In the ASEAN-4 the technocrats are mainly based in the economic planning agencies, Ministries of Finance and the Central Banks where they enhance alliances with the U.S., IMF and the World Bank in favour of opening up, deregulation, liberalisation and privatization. On the other hand the bureaucrats have developed links with the ISI business sector and other interests in the domestic context favouring a neo-mercantilist approach to development in general and economic policy-making in particular.

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17 Ibid., pp.28.

18 Cf Robert Wade(a), Op cit., pp.247.

Without going into detail, it is partly recognized among scholars of the region that the Japanese government agencies such as the Ministry of International Trade and Industry, MITI, Ministry of Finance, MOF, and the Ministry of Foreign Affairs link up with the bureaucrats in various line-ministries, one-stop agencies set up to deal with foreign investment and the important question of technology. But the relationships are unequal and the bargaining power of the ASEAN-4 bureaucrats is weak. As Gavin Boyd notes: "The perspective of Japanese administrative elites and managements on relations with the resource-rich ASEAN countries are strongly influenced by awareness of superior bargaining power and perceptions of opportunities to develop asymmetric complementarities through collaborative production ventures aimed at the U.S. and West European markets."[19] Perceptions of the administrative and other weaknesses of the ASEAN-4 and of the deficiencies of their national firms, moreover, tend to result in emphasis on treating those states as subordinate and dependent partners, despite the probability of incurring serious political costs.

The relative proximity and the rather open economies of the ASEAN-4 make their potential complementarity especially significant for Japan, particularly in view of the Japanese industrial establishment's need for expansion in what is otherwise a rather uninviting environment.

The ranking of these states for the purposes of national economic strategy appears to be determined firstly by opportunities for resource extraction, and secondly - but increasingly - by location advantages for manufacturing associated with Japan's main export endeavors. Indonesia has high priority for resource extraction, as is evident from the high volume of Japanese investment in oil and gas development. (Table 6 and 7.) But direct investment for those purposes is expanding into related forms of industrial growth, directed toward foreign as well as the domestic markets in each country. Malaysia ranks next, as a source of raw materials. But as a state at a higher level of administrative and infrastructure development, relatively advanced in a transition from ISI to EOI, its interests in export manufactured products have been frustrated by lack of access to the Japanese market.

Thailand has because of its lower level of administrative and infrastructure development, and the political uncertainties posed by rivalries between the military dominated state, bureaucrats and the business sector, until recently been less attractive to Japanese inducements. The Philippines - again more closely linked with the USA, and certainly less inclined towards

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[19] Gavin Boyd, Pacific Trade, Investment and Politics, Pinter Publishers, London and New York, 1989, p.114. The following paragraphs relies partly on Boyd, pp,.114-115.

Japan because of memories of the sufferings from World War II have, however, recently during the new Ramos administration developed friendlier ties with Japanese officials.

The bargaining strength of each actor in the ASEAN-4 bureaucracies, the technocrats versus the bureaucrats, are determined by how links are sophisticated and developed by the former to the external sector and the latter to the domestic players.

c. The Economic Influence Effect of TNC's and TNB's

No one will deny that power is not only political in its narrow sense, that is, not merely the province of states or other public entities. TNCs and TNBs wield far more power than many, indeed most, governments, and their influence is increasing each year. Susan George put it this way: "As scarcely needs pointing out, these huge international bodies are guided solely by the profit motive", and she estimates the annual turnover of the top 200 TNCs in 1984 as estimated at $3 trillion - fully 30 per cent of Gross World Product. "This is power indeed."[20]

FDI in developing countries has often been linked with aid flows from foreign governments[21] and/or multilateral agencies like the World Bank and the International Monetary Fund (IMF).[22] This linkage is especially extensive in these four economies. U.S. military aid to the Philippines in the 1950s and 1960s and to Thailand in the 1960s and 1970s, Indonesia up to and after the 1965 Suharto takeover and to a lesser extent the Commonwealth security umbrella in Malaysia in the 1960s to fight communist insurgency. Multilateral assistance to all four countries has since then, helped create the political stability and physical structure which attracted and facilitated FDI. There is also considerable proof of a linkage

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20 F.F. Clairmonte and J.H. Cavanagh, Transnational Corporations and Services: The Final Frontier, Trade and Development: An UNCTAD Review, No.5, 1984 cf. Susan George, Managing the Global House: Redefining Economics, in Chester Hartman and Pedro Vilanova (eds.), Paradigms Lost, The Post Cold War Era, Pluto Press, London Concard, Mass. With the Transnational Institute (TNI), 1992, p.115 ff.9 and pp.127.

21 E.g. Takeo Tsuchiya, The Japanese Sphere of Influence: Multinational Investment in Asia, AMPO: Japan-Asia Quarterly Review, Vol.16, Nos.1 & 2,1984, pp.28-59.

22 Walden Bello, David O'Connor and Robin Broad, "Export-Oriented Industrialization: The Short-Lived Illusion" in Walden Bello, David Kinley and Elaine Elinson, Development Debacle: The World Bank in the Philippines, San Francisco, Institute for Food and Development Policy, 1982, pp.127-164.

between Japanese aid flows to and investment in heavy industry in all four countries during a period from the 1960s to the 1990s.[23]

The situation may be extended even further with the establishment by the Japanese of a new $2 billion ASEAN Fund, part of which will be available for equity investments - including joint ventures with Japanese companies in all six ASEAN countries, mostly for export-oriented manufacturing. In October 1986 the Japan External Trade Organisation (JETRO) launched the JETRO Overseas Investment Scheme to organise direct investment and technology transfer to the ASEAN countries from mostly small and medium-sized Japanese companies manufacturing original brands. The new Fund and the JETRO scheme will benefit ASEAN countries, especially the Would-be NICs. It will also further enlarge the already significant economic presence of Japan in the region. Besides Japan, Taiwan has set up an Overseas Economic Cooperation Programme offering low-interest loans to developing countries. The United States has also launched a $13 million scheme to counter its (relatively) declining commercial presence in the Southeast Asian region.

Trade and Investment policies among the four countries do not differ that greatly. All four countries have protected their domestic markets with tariff barriers, but these are being lowered progressively not least because of externally induced demands. Some observers have mistakenly noted that the quantitative importance of FDI to domestic capital formation is small in all the ASEAN countries except for Singapore, where FDI accounted for 7.0 per cent of gross domestic capital formation between 1977 and 1985, compared with 1 per cent in Malaysia, 1.4 per cent in Thailand.[24]

However these statistics understate the importance of FDI by ignoring the question if there is any impact of technology, managerial expertise, marketing connections and reinvested profits which come with it. As survey data suggest TNCs are largely international trade oriented. Consequently, while foreign TNCs generally account for relatively small shares of total investment, they account for relatively large shares of exports and imports. Further studies suggest that FDI in Southeast Asia helps to raise domestic savings and growth to a

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[23] See William Nester(a,b,c,d, in fn. 55, this chapter). For Malaysia see Jomo, K.S., Project Proton: Malaysian Car, Mitsubishi Profits, in Jomo, ed., The Sun Also Sets, Lessons in Looking East, 2nd ed., Kuala Lumpur, INSAN, 1985, pp.383-386. For Thailand see Grit Permtanjit, Political Economy of Dependent Capitalist Development: Study on the Limits of the State to Rationalize, Chulalongkorn University Social Research Institute, Bangkok, 1982.

[24] Pradumna B. Rana, Recent Trends and Issues on Foreign Direct Investment and Economic Growth in the Asian and Pacific Developing Countries, mimeo, Asian Development Bank, Manila, March, 1988, p.18.

small extent, and improves the efficiency of investments. FDI has also played a disproportionate role in effecting structural change in our four host countries, e.g. from primary commodity exports to import-substituting industrialization in Malaysia and Thailand in the 1960s and 1970s, and to export-oriented manufacturing in all four economies since the 1970s. FDI has also been important in developing energy exports in Malaysia and Thailand, heavy industry in Malaysia, high-tech industry in Malaysia and Singapore, and financial and business service exports in Singapore, but still without the much needed technology and transfer of management.

The pressures following aid and FDI are consistent with the conditions imposed by the World Bank and IMF. Liberalisation and deregulation in the financial sectors remains important prerequisites for economic growth at least seen with the eyes of the multilateral institutions. It is the TNBs that are the main vehicles for this process which is a result of the present crisis in the capitalist world economy. Furthermore, the ever increasing needs for financing by TNCs, have brought them and TNBs into a more linked interdependence. On the whole, as Gorostiaga has argued, banking capital continues to be the hegemonic part of finance capital.[25]

d. The Political Economy of Foreign Investment in the Four Countries Compared[26]

In all ASEAN-4 countries, FDI by TNCs has been very actively encouraged. Generous incentives have been offered to foreign investors. FDI in the ASEAN-4 has increased rapidly over the past two decades, but the fact that all the state administrations are very keen to attract FDI inflows, and that they have to compete not only with other countries in attracting FDI, but also among themselves for the same source and in similar industries it is quite obvious that the investor has the greater advantage in the bargaining process involved.

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25 Xabier Gorostiaga, The Role of International Financial Centres in Underdeveloped Countries, Croom Helm, London & Sydney, St. Martin's Press, New York, 1984, pp.118-119.

26 For statistical purposes we shall adopt the definition of foreign investment given in the IMF *Balance of Payments Manual*(Fourth Ed.). The definition is: 'Direct investment refers to investment that is made to acquire a lasting interest in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise'. The operative words are 'lasting interests', that is, investment undertaken with a view to acquiring control. Excluded in this definition are portfolio investment and loan capital.

According to statistics compiled by the United Nations Centre on Transnational Corporations, FDI flows to the NICs and ASEAN accounted for as high as 95 per cent of the total FDI flows to all developing countries in the Asia and the Pacific region during 1977 to 1983. ASEAN alone accounted for 63.4 per cent of such FDI flows. Amongst the ASEAN-4 countries, flows to Indonesia were the highest, followed by Thailand, Philippines and Malaysia in the same period. Statistics for 1961-1990 show that among the ASEAN-4 countries, the largest private FDI flows have gone to Malaysia with 27.6 per cent, Thailand 13.7 per cent, Indonesia 10.5 per cent and the Philippines 5.5 per cent.[27]

The most significant foreign investor in the region is Japan, and for a number of countries electronic exports are the largest foreign exchange earning sector. Therefore the following provides a brief discussion of the major reasons behind the recent upsurge in Japanese FDI and some of the related problems of the electronics sector.

According to statistics from the Ministry of Finance in Japan(table 6), the United Kingdom was the second largest receiver of accumulated FDI from 1951-1988 next to the U.S. Indonesia ranged third with the rest of the ASEAN-4 hitting the bottom-line. An even more striking feature of Japanese FDI is, contrary to conventional belief, not concentrated in manufacturing industry. As can be seen from table 7, non-manufacturing sectors such as mining, commerce, finance & insurance and transportation in Asia, received the bulk of FDI.

In the old wave of Japanese investment up to 1985, three major trends can be identified: 1. Japanese investment sought to secure supplies of raw materials which were scarce in Japan. 2. Japanese firms relocated manufacturing processes to countries with lower production costs. 3. Japanese firms established subsidiaries in countries which had erected tariff barriers to encourage import substitution.[28] The new wave of Japanese investment starting in 1985 and 1986 is normally explained solely in terms of the Yen appreciation or as a matter of overcoming trade friction imposed by rising protectionism in Europe and the U.S. However the real forces behind these two phenomena are according to Phongpaichit much more fundamental and had been operating in the Japanese economy for some time: "They are embedded in the transformation of Japan from an industrial country relying on labour-intensive exports into a high-tech economy. Structural change within the Japanese economy was the

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27 International Monetary Fund, International Financial Statistics Yearbook 1991, Washington, D.C., 1991.

28 Pasuk Pongpaichit, The New Wave of Japanese Investment in ASEAN, ASEAN Economic Research Unit, ISEAS, Singapore, 1990, p.29.

fundamental cause pushing a large flow of foreign investment out from Japan. The Yen-appreciation and trade frictions were symptoms of this transformation."[29]

While the ASEAN countries have achieved significant results in promoting exports and employment in the largely foreign-dominated electronics industries, they have had relatively few technological benefits of an enduring nature. The ASEAN countries and territories have technologically lagged behind Hong Kong, the Republic of Korea, and the Taiwan Province. The prospect for the ASEAN electronics industries, with the exception of Singapore, to be able to close the technological gap separating them from the Asian Newly industrializing countries, not to mention the advanced industrialized countries seems small.[30]

Most ASEAN countries, with the exception of Thailand, export 70 per cent or more of their electronics industry output to the United States. The lower figure for Thailand probably reflects two phenomena. First, Thai assembly plants ship a sizeable percentage of their output to test facilities located elsewhere in the region, principally Singapore, before shipping it to the United States. Second, Thai assembly plants primarily serve primarily Western European operations of United States semiconductor/computer transnational corporations.

Unless and until ASEAN countries (excluding Singapore) are able to develop their supplier/support industries, the prospects are dim for competing effectively in international markets for low-technology consumer-electronics products against the high-volume, low-cost producers of the Asian newly industrializing countries.[31]

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[29] Op cit. pp.33-34 for further evidence.

[30] ESCAP/UNCTC Joint Unit on Transnational Corporations, Transnational Corporations and Electronics Industries of ASEAN Economies, United Nations Centre on Transnational Corporations, UNCTC Current Studies, Series A No.5, United Nations New York, 1987,pp.4-5.

[31] Ibid. pp.15 and 36.

Table 6: Japan's Direct Overseas Investment by Region and Country (As of March 31, 1989) (US$ million)

	FY 1988 Amount	FY 1951-1988 Total
U.S.A.	21,701	71,860
Canada	626	3,231
North America, total	**22,328**	**75,091**
U. K.	3,959	10,554
Luxembourg	657	4,729
Netherlands	2,359	5,525
Germany, F. R.	409	2,364
France	463	1,764
Switzerland	454	1,432
Spain	161	1,045
Europe, total	**9,116**	**30,164**
Indonesia	586	9,804
Hong Kong	1,662	6,167
Singapore	747	3,812
Korea, Rep. of	483	3,248
China	296	2,036
Malaysia	387	1,834
Taiwan	372	1,791
Thailand	859	1,992
Philippines	134	1,120
Asia total	**5,569**	**32,227**
Australia	2,413	8,137
Oceania, total	**2,669**	**9,315**
Saudi Arabia/Kuwait	20	1,383
Middle East, total	**259**	**3,338**
Panama	1,712	12,858
Brazil	510	5,596
Cayman	2,609	5,085
South America, total	**6,428**	**31,617**
Liberia	648	3,658
Africa, total	**653**	**4,604**
TOTAL	**47,022**	**186,356**

a) Figures are the accumulated value of approvals and notification.

Source: Ministry of Finance Japan. *An International Comparison*, Keitzai Koho Center (Japan Institute for Social and Economic Affairs), Tokyo, 1989, p. 57.

Table 7: Japan's Direct Overseas Investment by Region and Industry (As of March 31, 1989)

	North America Amount (US$ million)	**Latin America** Amount (US$ million)	**Asia** Amount (US$ million)	**Middle East** Amount (US$ million)	**Europe** Amount (US$ million)	**Oceania and Africa** Amount (US$ million)	**Total** Amount (US$ million)
Iron & Nonferrous Metals	2,553	1,933	2,268	66	328	522	7,671
Chemicals	2,311	590	1,785	1,128	594	133	6,540
Electrical Machinery	5,952	491	2,414	14	1,261	63	10,196
Transportation Equipment	3,030	1,050	1,183	4	913	776	6,956
Textiles	493	439	1,380	4	303	50	2,669
General Machinery	2,610	378	1,036	11	626	55	4,716
Lumber & Pulp	1,377	200	389	–	5	128	2,099
Manufacturing, total	**23,944**	**5,437**	**12,371**	**1,273**	**4,857**	**1,961**	**49,843**
Mining	1,647	1,557	6,912	393	1,103	2,337	13,949
Commerce	11,693	1,508	1,913	20	3,955	922	20,011
Finance & Insurance	12,370	10,990	2,509	123	14,853	1,031	41,876
Transportation	239	9,235	584	2	101	2,181	12,342
Total	**75,091**	**31,617**	**32,227**	**3,338**	**30,164**	**13,919**	**186,356**

Source: Ministry of Finance, Japan.

Some studies of foreign investment in Malaysia suggest that the sectoral composition of foreign investment, and government policy, may be more important than foreign nationality in determining the effects of such investment. Local linkage creation is still poor in Malaysia's export-oriented, foreign-owned electronics industry, although there are some examples of the same industry in the Asian NICs, which suggests that over time local linkages are created.[32] However, as noted before these linkages are the credit of deliberate, coherent state intervention in the NICs.

In fact, production and exports have been restructured upwards by foreign firms in Malaysia. For example, the electronics and electrical equipment industry, which became one of the leading export-oriented industries, exports almost all of its production (99.2 per cent). 87 per cent of these exports are exported by the foreign-owned firms located in Free Trade Zones (FTZ). The situation is the same in the textile industry which now has become the second largest export-oriented industry after the electronics and electrical equipment industry. 92.4 per cent of the textile industry is exported, again by foreign firms in FTZs. Foreign-owned firms operating in an FTZ procure almost all materials and parts abroad. In spite of a 20-year history in Malaysia, the ratio of local content is only two per cent for the electronics and electrical equipment industry. For the textile industry the ratio is only 0.5 per cent.[33]

Though FTZ firms are contributing to the Malaysian economy in terms of expansion for production, exports, and job creation, they have almost no linkage with local firms especially in terms of local procurement. This relationship between locals and FTZ firms is sometimes called the "export enclave" or "tenant industry", where the host country provides only land and labor force to FTZ firms with much cheaper prices than in their land of origin.[34]

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32 Linda Y. C. Lim and Pang Eng Fong, Foreign Investment, Industrial Restructuring and Changing Comparative Advantage: The Experience of Malaysia, Thailand, Singapore and Taiwan, OECD Development Centre, Paris, 1991, p.88.

33 Takeshi Aoki, Japan's Direct Investment and Building Networks. The Experience of Malaysia and its Implications. In F.G. Adams and R.F. Wescott, Exports, Foreign Investment, and Growth in East and Southeast Asia, ICSEAD, Kitakyushu, Japan, 1992, pp. 93-94.

34 Ibid. However, Aoki in the referred study mentions a recent change with linkages and networks being formed in some industries.

Table 8: **Rate of return on the U.S. Direct Investment Position in Selected Developing Asia-Pacific Countries, 1980-1986**

	Percentage							
	1980	1981	1982	1983	1984	1985	1986	Average rate of return 1980-1986
ASEAN-4:								
Malaysia	52.7	35.8	27.5	32.0	34.8	29.7	11.1	31.9
Indonesia	167.7	136.1	84.8	64.4	57.8	31.4	11.6	79.2
Thailand	5.0	8.3	-4.1	0.1	5.2	12.5	12.9	5.7
Philippines	13.4	15.7	3.6	0.2	6.5	8.9	18.1	1.5
NIC's:								
Singapore	32.1	31.7	28.3	28.8	27.2	20.1	21.8	27.1
Hong Kong	29.3	28.2	23.1	17.3	14.3	15.7	16.6	20.6
Taiwan	20.0	16.8	23.1	24.0	28.3	12.1	13.9	19.7
South Korea	-6.8	4.9	10.5	8.1	26.2	23.2	13.2	11.3

Source: U.S. Department of Commerce, 1988b, p. 112. cf.

From a dynamic perspective, whatever the static economic costs and benefits, foreign investment has contributed to the development of industrial capitalism in Malaysia, by quickening the growth of an industrial sector and of a multi-ethnic working-class, and by developing technical and managerial skills among employees through technological upgrading. Foreign investors in joint ventures with state and local capital have also contributed to the development of an indigenous capitalist class, albeit a somewhat dependent one.[35]

More than half of Thailand's total exports are now made up of manufactures, and the country enjoyed a trade surplus in 1986 for the first time in 20 years. Since then imports of machinery and equipment to support new investments have boomed and turned this surplus into a deficit.

These examples from Malaysia and Thailand show government policy is very important in determining both the costs and the benefits to the host country of foreign investment. Investment incentives can be fine-tuned to induce the development of desired industries and activities only as was the case in Singapore, or they can impose a fiscal burden on the host government, happened to some extent in Malaysia and Thailand. Government regulation of industry and discriminatory treatment of local entrepeneurs could create linkages in Malaysia as compared with the recent rapid spawning of local suppliers in Thailand's partly regulated economy.

The regional pattern of FDI can have an impact on its effects in particular countries. For example, vertical integration of the transnational electronics industry across national boundaries can reduce linkage effects in each country, which is evident in ASEAN. Apart from local content problems, the profits or rates of return on FDI are of similar concern to policy-makers.

The figures in table 8 indicate that FDI from the United States has been more profitable in Indonesia and Malaysia, who have received most, than in Thailand and the Philippines, where foreign investment was limited. In 1980-86, U.S. firms earned an average return of 31.9 per cent in Malaysia compared with 5.7 per cent in Thailand and only 1.5 per cent in the Philippines. In the same period they reaped an exceptionally high rate of return (79.2 per cent) in Indonesia, a country which attracts a large volume of resource-oriented investments. Compared with the NICs the average rate of return has been higher in Malaysia and Indonesia but lower in Thailand and the Philippines.

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35 Ibid p.89, and the following paragraphs, pp.90 and 96.

In terms of the total flow of foreign capital, foreign direct investment has been dwarfed by other long-term capital, mostly external loans and, and in the case of Indonesia, Thailand and the Philippines at different times, aid.

Taking all these factors into consideration we are left with two potentially distinctive effects of foreign investment *per se* which differentiate it from local investment in the same industry and subject to the same government policies. One is the access that foreign investment provides to foreign technologies and skills not otherwise available domestically, though the extent of local absorption of these technologies and skills may be questioned. The other is the access it provides to foreign markets for the host country's exports, though again the extent to which such access is granted to the host country and to local firms may be a matter of dispute. These special features of foreign investment are not similarly provided by other foreign capital inflows such as external loans, and both may be affected by government policy in the host country. But as Baran already in 1973 noticed: "The worst of it, however, that it is very hard to say what has been the greater evil as far as the economic development of underdeveloped countries is concerned: the removal of the economic surplus by foreign capital or its reinvestment by foreign enterprises."[36] The fact is that no statistics exist in any government-department in the ASEAN-4. At least, there are no public admission, to information on technology transfer, rate of profits returned and so on.

e. Transnational Banks and the Debt Crisis

The 1974-1982 period witnessed a climax in debitor-creditor relationships between developing countries and transnational banks. The principal form behind this new relationship was the syndicated loan mechanism by which a few principal organizers put together a loan package in which others participated without coming into direct contact with the borrower. Before the rise of the price of petroleum in 1974, official development assistance, private direct investment and export credits were the three major sources of external resources going to developing countries. Over the 1974-82 period, these sources demonstrated a marked tendency to decline as a proportion of overall resource flows, and private bank loans blossomed to become the single major new source of external resources, especially for the relatively more advanced developing countries.

[36] P. Baran, The Political Economy of Growth, Penguin, Harmondsworth, 1973, p.325.

This was followed by the post-1982 period of sharply reduced bank credits. One important aspect of international bank credit, especially syndicated loans, was its concentration in just one region - Latin America and the Caribbean. This region represented nearly three fifths of bank-lending to developing countries during the period 1974-1982, but its share declined to one half during 1983-1986. Lending to East Asia and the Pacific accounted for about one fourth during the period 1974-1982 and rose slightly over one third during 1983-1986. African countries accounted only for a little more than 10 per cent of the total lending to developing countries during the period 1974-1982, but saw their share decline to 7 per cent in 1983-1986.

The situation with Mexico's inability to meet its external obligations in August of 1982, was generally noted as the event which separated the period of primarily "spontaneous" bank-lending that is, mostly voluntary lending to developing countries with debt problems, usually in the context of adjustment programmes administered by the International Monetary Fund (IMF) and debt reprogramming agreements with transnational banks designed and administered by bank steering committees. In consequence, transnational bank lending to developing countries fell from $43 billion a year during the period 1978-1982 to $18 billion during 1983-1986. This meant that bank loans as a percentage of resources received by developing countries fell from 36 to 21 in 1985 dollars.

Retrospect, it is clear that during the boom in lending, the banks, especially the bigger ones, placed an excessive amount of credit in many developing countries. Once the debt service problems of some of the more important borrowers became apparent, transnational banks quickly and severely reduced their previous levels of lending. Both of these actions represented pro-cyclical behaviour and ,therefore, contributed directly to the genesis and prolongation of the debt crisis. The debt management practices of the 1980s, no doubt, succeeded in preventing a collapse of the transnational banks. On the other hand the predicament of the developing countries persists and has been aggravated.

First, a comparison of commercial bank disbursements with the financial outflows from debtors associated with debt servicing reveals a negative resource transfer from the major developing country borrowers to the credit banks. Secondly, in spite of all the new techniques and approaches that had been evolved beginning with the Baker plan in 1985, the stock of debt has grown and remains very large. Thirdly, a substantial proportion of export earnings continues to be directed towards repayment of interest. (See table 9).

The reverse transfer of resources, reaching 20-25 per cent of gross domestic savings during the period 1983-1987 for the largest Latin American debtors, has had severe consequences for the debtor's current and future prospects for development. Viewed in the context of macro-economic aggregates, debtors could finance these transfers abroad by either reducing consumption or investment or both. The burden of adjustment has had a severe negative impact upon domestic investment. In many cases, the decline was of such a magnitude as to cause the stock of productive capital to decline. This general pattern was also felt in the ASEAN-4. Figures in table 9 confirms a leap jump in foreign debt from 1980 to 1990.

Malaysia and Thailand have used borrowing primarily to finance high infrastructure and enterprise investment. An extreme opposite is the Philippines where borrowing was dissipated into corruption and overpricing, or went into unsound projects so that neither export and government revenue nor export growth to cover debt service was achieved. Indonesia, the most heavily indebted country used borrowing to finance infrastructure and construction as well.

According to Maitet Diokno,[37] more money is collectively flowing out of Asia than into it, and is returning to the pockets of the world's lenders, in the name of 'development'. In the five-year period from 1985 to 1989, the combined negative net transfers of Indonesia, South Korea, Malaysia, Maldives, the Philippines and Thailand, were equivalent to 3.6 per cent of their production in that period. Debt service alone eats up to 20 per cent (Philippines) of the average income of the poor - an unbearable burden when you consider that their incomes are not enough for their survival. As a proportion of exports (both merchandise and invisible, including workers' remittances), debt servicing between 1985 and 1989 was as indicated in table 9:

* over 30 per cent - Indonesia and the Philippines

* 20-30 per cent - Malaysia and Thailand

Most importantly, access to IMF lending - particularly low conditionality lending - has become limited, while IMF supervision and greater conditionality have become the norm. The debt crisis has triggered the operation of specific regime norms, increasing the control of creditor countries and institutions and generally affording a much more restrictive international milieu.

[37] Maitet Diokno, Understanding Asia's Debt in Asian Exchange, Vol.7 Nos.3/4, March 1992, p.74

Table 9: Growth of Foreign debt, 1970-1992

	1970		1975		1980		1986		% annual	1990	
	Total[1] debt as a % of GNP	Debt[2] Service Ratio	Total[1] debt as a % of GNP	Debt[2] Service Ratio	Total[1] debt as a % of GNP	Debt[2] Service Ratio	Total[1] debt as a % of GNP	Debt[2] Service Ratio	increase in debt 1980 - 86	Total[1] debt as a % of GNP	Debt[2] Service Ratio
Malaysia	12.9	2.6	14.9	3.3	13.6	2.3	47.8	6.3	52.4	48.0	11.7
Indonesia	37.7	7.8	27.4	7.5	22.5	8.0	33.4	8.3	21.1	66.4	30.9
Thailand	5.2	3.2	4.2	2.4	11.4	4.9	26.4	5.9	22.6	32.6	17.2
Philippines	9.2	6.8	8.7	7.1	18.2	7.1	41.7	10.5	33.9	69.3	21.2

1 Debts Outstanding (DOD) as a percentage of GNP.

2 Total Debt Service (TDS) as a percentage of the value of exports of goods and services.

Source: World Bank, World Debt Tables, Washington, Various issues, and World Bank, Sustaining Rapid Development, Washington, 1993. Table 20, p. 63.

Furthermore, the reluctance of TNCs to provide new lending unless a World Bank-IMF programme package is tied in, empowers the latter to further impose their ideology of development on the borrower-countries, especially those with the least bargaining chips (such as heavy debts). TNBs and TNCs provide the finance, technology, and management expertise to underpin the World Bank, IMF, and borrower countries in the shifts toward a new international division of labor, but core states also play an important role.

f. The Influence Effect of Multilateral and Bilateral Institutions: World Bank, IMF and the Case of Japan

All the existing international economic institutions such as the World and the International Monetary Fund are controlled by the United States and Western Europe. Recent experience suggests that neither is willing to see their influence diminish to accommodate Japanese demands for a larger role in the leadership of the organisations. The Japanese have stressed their unwillingness to place large amounts of their capital in the World Bank and other multilateral institutions unless they have a greater say about its use. Japanese initiatives for increasing the flow of capital to developing countries include in fact the requirement that Japan's influence in the existing international financial institutions be increased.[38]

States are usually the result of long-drawn conflicts between different social groups to wrest different elements of power from one another. At different times and in different countries states play different roles. Four such roles can be identified, each of which have had influence on the course of the changing world economy, and have contributed to the internationalization of production and finance, hastened the integration of states into the new international division of labour, and new into international institutions.

One role has been as a market. For example, a considerable part of the movement of transnational corporations towards the U.S. in the 1970s, especially those involved in the electronics industry, can be explained by their desire to obtain lucrative government defence contracts. Another role of the state has been restrictive: as the economic crisis deepened it touched off a rising tide of protectionism - the erection of new tariff barriers, insistence on employing local labour, and so on. A third role has been enabling. Most states provide a policy-package to attract foreign direct investment. The activities of foreign investment agencies in almost every country of the world are legion. The state can act to help

[38] See Robert Gilpin(b), Op cit.pp.12.

transnational corporations based in their country expand into other countries, either indirectly by providing export advice and insurance, or directly through an explicit internationalization strategy as in the case of MITI in Japan, the efforts made by the NICs and to a smaller extent the ASEAN-4. Finally, the state can act as a competitor to other foreign direct investors. For example, it can compete for funds from the banks. The U.S. does this so effectively, in order to finance its budget deficit, that it has pushed up real interest rates around the world. Or the state can compete even more directly by using state-owned TNCs. Thus in 1978, out of the largest 483 industrial companies in the developed market economies, 37 were state-owned and nearly all were transnational. Finally, it is important to remember that states do not have to be restricted to their own boundaries. A number of international state organizations exist, all the way from the UN, with its various industrial bodies, the 24-member OECD the IMF and the World Bank etc. These international organizations can be used to extend a country's economic power abroad, promoting its exports or the influence of its transnational corporations. Thus it is difficult not to view the IMF as an explicit arm of the U.S. economic policy, used to open up the economies of recalcitrant countries towards U.S. exports and to U.S. transnational corporations, and to discipline the economies of these countries to the needs of 'the market'.

The United States has fought hard to get the Japanese to contribute more to multilateral institutions without obtaining more voting power within the institutions. "In the Asian Development Bank, for example, Japan now contributes one-third of the capital but still has only one-eight of the votes - no more than are commanded by the United States."[39]

But in the past aid was also trade, and in the future trade will be intimately linked to aid. 'Market friendly' measures are not new, they have just been given a new name. In 1978, Johnston, the deputy assistant secretary of state, Bureau of Economic and Business Affairs, testified to the U.S. Congress that, "every dollar we pay into the multilateral, the Development Bank generates about $ 3 business for U.S. firms."[40]

This is evidently also the case with Japan's aid policy strategy, which although still neo-mercantilist has shifted towards a more sophisticated form.[41] For example, the emphasis is

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39 See Eric Helleiner, Money and Influence: Japanese Power in the International Monetary and Financial System, in Kathleen Newland (ed.), Op cit. pp.32.

40 Vandana Shiwa, A Fate Worse Than Debt, The Illustrated Weekly of India, July 27-August 2, 1991.

41 Unless otherwise noted the following come from William Nester (a),(b),and (d) op cit.especially pp.376-377, pp.112-124, and p. 511, respectively.

rapidly changing from simply tying aid to purchases of Japanese goods and services or to enhancing Japanese investment in the region, to a complete restructuring of the East Asian economies making them intricately entwined with Japan's dynamic economy. In other words, Japanese aid is not valued as much for stimulating specific Japanese industries as for boosting the entire Japanese economy. East Asia is seen as the offshore location of Japanese-owned business producing raw materials, energy, low cost components, and finished goods, as well as providing a vast and increasingly affluent market for Japanese products.

This regional integration strategy is captured in MITI's 1988 New Asian Development Plan and the ASEAN-Japan Development Fund in which MITI "established the policy framework for Japan's future economic cooperation. It signals a switch of Japanese aid from specific infrastructure projects, such as a dam or a new road, to supporting the development of selected industries and the structural adjustment of economies."[42] The master plan involves creating and implementing a series of bilateral plans with each East Asian country. Japanese officials would first conduct an intensive study of the country and of the target industries with the best chances for developing the economy - and not competing with Japan's own strategic industries. This master plan detailing both macroeconomic and industrial policies would then be implemented through a steering committee composed of both Japanese and native officials, representing the relevant economic ministries of both countries. The committee would utilize all the tools of Japan's own extraordinarily successful industrial policies - research, import, export, price, and production cartels, a range of import barriers, tax, grant, and export subsidy incentives, carefully negotiated technology licensing and patent agreements which provide low cost key technologies, and industrial export zones. Aid through the Overseas Economic Cooperation Foundation (OECF) would target related infrastructure such as ports, railroads, telecommunications, and industrial estates; the Japan External Trade Organization (JETRO) would assist exports by setting up trade and industrial promotion centers which would provide vital information about foreign markets; while the Japan Overseas Development Corporation (JODC), and Japan International Cooperation Agency (JICA), and Association for Overseas Technical Scholarship (AOTS), Engineering Consulting Firms Association (ECFA), and Japan's ASEAN centers would provide a range of technical advisers and Japanese experts at all levels. Japan has already functioning committees with Thailand and Malaysia and is currently setting up similar committees with the Philippines and Indonesia.

[42] Economist, July 15, 1989 cf. Nester(d) op cit. pp.511.

As a matter of fact, part of Japan's successful industrial policies has determined the unequal trade relationship with the NICs and ASEAN. For one the United States remains a giant trading partner for the East Asian countries. Even as the share of the NICs exports to Japan edged up from 10.1 per cent in 1980 to 12.5 per cent in 1989, the share that went to the United States jumped from 19.3 per cent to 30.0 per cent. The exports from the ASEAN-4 to Japan, meanwhile, declined from 34.5 per cent of total exports in 1980 to 24.3 per cent in 1989, while its exports to the United States rose from 18.7 per cent to 20.5 per cent.[43] Japan too, directs a high share of its exports to the United States.

By 1990, ASEAN had a large domestic market of 330 million people with a combined U.S.$300 billion GNP or U.S.$ 1.100 per capita compared with Japan's 123.5 million people with a combined U.S.$2.990 billion GNP or U.S.$24.213 per capita. The move to AFTA will have a limited effect on world trade and will not dismantle GATT-wide multilateralism. In 1991, the ASEAN share of world trade was only 4.6 per cent. Moreover, ASEAN countries will not overly emphasize on intra-ASEAN trade since the role of trading with non members is much more important. Therefore it is appropriate to define AFTA and EAEC as extra-national possibilities. National development objectives still plays the determining role when a choice is available. The existing conditions in East Asia (Japan, the NICs, and ASEAN) do not satisfy a number of basic prerequisites for regional integration or economic regionalism.[44]

If the conditions for successful regional integration are absent or as pointed out in the following at least problematic in the East Asian context, it leaves the state as the only main actor. The politically insulated nature of the state in ASEAN resembles in appearance the NICs but not their character.

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[43] International Monetary Fund data, cf Tasuku Takagaki, Dynamic Growth as an Antidote for Trading Blocs, Economic Eye, Keizai Koho Center, Japan Institute for Social and Economic Affairs, Tokyo, Vol.13, No.2, p.6.

[44] See the arguments by the President of the Bank of Tokyo, Tasuku Takagaki, Op cit., pp.5-6.

g. The Economic Influence Effect of Core States: Regionalization as State Policy Response of Last Resort[45]

One major external event in the post-Cold War era has emerged as a big threat to the export-dependent ASEAN-4 countries. That is the emergence of EC and NAFTA trade-blocks which by nature will pose a greater challenge in the future.

The answer by the member states of ASEAN has been various defensive measures, such as the Malaysian prime Minister Mahathir's proposal of creating the EAEG[46] in 1991 which changed name in 1992 to the East Asian Economic Caucus (EAEC) with Japanese leadership, but excluding the United States. However, Mahathir's proposal clearly resembles an earlier idea from 1988 by the Japanese Ministry of Foreign Affairs who came up with the suggestion of an East Asian Economic Ring.[47] Many of the details of EAEC are not yet available. But public statements from the proponents emphasize the following.

1) EAEC was intended to be a consultative forum. Member states could use EAEC to debate, on an ongoing basis, trade and economic issues of mutual interest. 2) EAEC was not intended as a trade bloc but would be consistent with GATT and try to contribute to the success of the Uruguay Round in the attempt to maintain and enhance the global trading system. 3) EAEC would not create trade barriers to third country imports but explore all areas of potentially productive cooperation within the spectrum of economic interrelationships. Oppositions to EAEC comes especially from the U.S., and the proposal is still without an organizational structure or even a schedule of meetings. Therefore the result of the Malaysian initiative remains unclear.

This is also the case with the former Thai Prime Minister Anand's suggestion to create a free-trade area for manufactured goods within 15 years by progressively lowering tariffs that block the movement of goods within ASEAN. The implementation of this proposal is not without

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45 For a similar view see Walter Arnold's excellent use of Albert O. Hirschman's systematic theory of the linkage between economics and politics which asserts that both trade and investment have more than one kind of effect. For an elaboration see Walter Arnold, Political and Economic Influences in Japan's Relations With China Since 1978, in Kathleen Newland, Op cit. pp.121-146.

46 East Asian Economic Grouping was launched in a speech delivered by Prime Minister Mahathir bin Mohamed in Bali, Indonesia on 4 March 1991.

47 Li Shi Chun, Japan's Role in the International Division of Labour, Paper presented at the ASEAN-China Hong Kong Forum 1989 Hua Hin, Thailand. In Susumu Awanohara (ed.), Japan's Economic Role in the Asian Pacific Region. Policy Implementation and Responses, Centre for Asian and Pacific Studies, Hong Kong, 1990, pp.24-25.

complications. Sree Kumar, a former business consultant, who is now a fellow at the Institute of Southeast Asian Studies in Singapore states that a major obstacle is that ASEAN countries, "tend to compete for similar investments and access to the same markets."[48] While the value of intra-ASEAN trade increased to $25.3 billion in 1990 from $12.9 billion in 1980, it has barely kept up with the rise in ASEAN trading with the rest of the world, which totalled $268 billion in 1990. "As a proportion of the group's total trade, intra-ASEAN commerce stood around 20 per cent in 1990, little changed from a decade earlier."[49] Nearly 16.000 items were included in an ASEAN preferential trading arrangement (PTA) signed in 1977, most were put there because they are not widely traded. For instance, snow plows, of no use in the tropics, are on the list. Obviously the list is impressive, but it has not increased PTA trade in ASEAN which remained at 1 per cent of total intra-ASEAN trade.[50] All empirical studies on the likely impact of the PTA on intra-regional trade confirm that the effects of the tariff cuts have been minimal.[51]

Although ASEAN has generated an extensive, interactive network of governmental and private sector agencies, ASEAN regional economic cooperation is still very slow, especially in crucial areas as trade liberalization and industrial cooperation. For instance, in spite of the ASEAN Preferential Trading Arrangement and Complementation Scheme, intra-ASEAN trade has barely reached 25 per cent, which was the peak achieved before ASEAN was established. Intra-ASEAN exports increased marginally from 16.7 per cent in 1980 to 17.4 per cent in 1989, which largely reflected Singapore-Malaysia and Singapore-Indonesia trade. In fact, the share of exports from the Philippines and Thailand to other ASEAN countries has declined.

The general problem inherent in the various responses from the ASEAN member states, individually as well as a regional group, has been the tendency to shy away from more substantive areas such as harmonization of trade and investment policies or macro-economic policy coordination.[52] Regional cooperation has generally focused on a relatively shallow

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48 Michael Richardson, Can ASEAN Meet The EC Challenge?, International Herald Tribune, January 21, 1992.

49 Ibid.

50 Tan Kong Yam, Toh Mun Heng, and Linda Low, ASEAN and Pacific Economic Co-operation, ASEAN Economic Bulletin, VOl.8, No.3, 1992, p.311.

51 Ibid., pp. 311.

52 Seeiji Naya (Coo.), ASEAN Economic Cooperation for the 1990s, A report prepared for the ASEAN Standing Committee, Philippine Institute for Development Studies and ASEAN Secretariat, Manila, 1992, p.19. Refer in the same volume to Dr. Chng Meng Kng, Deputy Secretary General, ASEAN

level of cooperation in trade, industrial development, environment management and exchange of information. Furthermore, the ASEAN framework is not governed by any legal or legislative binding force, in the form of a treaty. On the contrary, the arrangement is loose and flexible, and based on a simple memorandum of understanding. Finally nationalism continues to prevail over regional interests. For instance, when the United States offered ASEAN preferential trade benefits, similar to those extended to Mexico and the Caribbean, the ASEAN countries insisted that Washington sign six separate treaties with them. The U.S. offer was subsequently shelved.[53]

Four reasons have been pointed out as impediments towards further regional cooperation in ASEAN.[54] 1) The structure of the economies, 2) ASEAN's institutional structure and modus operandi, 3) dominance of national over regional priorities, 4) the success of the economies.

Economic regionalism can manifest itself in a number of ways. It may appear as a free-trade area in which internal tariffs are abolished but the member countries impose tariff rates of their own choosing on outsiders. Or it may take the form of a customs union, whose members not only abolish internal tariffs but also apply uniform tariff rates to outsiders. A yet more integrated version is an economic union in which the internal movement of not only goods but also services and labor is completely freed of encumbrances. Neither of these conditions is present at the moment in ASEAN.

Analysts have repeatedly stressed that the reason why regional economic co-operation in ASEAN is so limited is because the economies of the member countries are competitive rather than complementary. With the exception of Singapore, ASEAN members specialize in the export of primary products to the core, and in many cases find that they are in competition with one another in the global marketplace. Singapore is the exception and, significantly accounted for 47 per cent of all intra-ASEAN trade in 1988. Paradoxically, however, the differences between the economic structures and the levels of development of

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Secretariat who explains why the ASEAN Secretariat's role within ASEAN are marginalized to the point of redundancy: 1)desire of member countries for wider participation of its officials in ASEAN activities, whatever the tangible benefits of such participation. 2)there is a lingering fear that a strong ASEAN Secretariat may usurp national control. 3)there is also concern that an expanded Secretariat may not generate benefits commensurate with the financial cost involved. Chng Meng Kng, Institutional Structure for Enhanced Economic Cooperation. In Seeiji Naya, ibid, pp.97.

53 Bangkok Post, Cooperation in a Pipe-Dream, 11, November, 1991.

54 The following relies heavily on Jonathan Rigg, Southeast Asia. A Region In Transition, Unwin Hyman, London, 1991, pp. 219-221.

the member states also restrict co-operation. It has proved extremely difficult to design and implement schemes for regional economic co-operation that will benefit each country equally, and reaching a consensus has often been impossible.

ASEAN operates on the basis of consensus (or on the slightly adapted six minus one principle). This has no doubt contributed to solidarity, but also means that negotiations are characteristically long and convoluted. Agreements is achieved only after much procrastination, and then on the basis of the lowest common denominator. However, more serious is the lack of institutional independence. There is no individual representing the interests of the Association. It means that national interests are likely to prevail over regional interests. The peripatetic nature of the Standing Committee - the highest decision-making body between the annual foreign ministers' meetings - means that it is inefficient and lacking in continuity and expertise. Simply there are difficulties of co-ordination because there is no integrated decision-making structure.

Short-term national interests predominates over the long-term regional interests. This problem is closely linked to another explanation on the modest progress of ASEAN economic co-operation: the success of member states economies. Between 1965 and 1989 GDP expanded at an average annual rate of over 6 per cent. With a relatively good performance in all the ASEAN economies except the Philippines, which recorded a negative 'growth rate' of 0.5 per cent between 1980 and 1987, there is little incentive to promote greater regional co-operation. Should there be a worsening in performance or a tightening of the extra-regional trade environment, this complacency could quickly change.

A country's foreign economic and political interests are interrelated, and aid can cement those interests. Japan is East Asia's largest aid donor, a title it took from the United States in the 1970s. The real question is where does Japan fit into the various attempts to create regional groupings in East Asia in general and ASEAN in particular.

The ASEAN-4's dependence on Japan extends to investment and ODA as well as trade. The economic influence effect can be applied to explain the Japanese government's strategic use of foreign economic policy and on the other hand it can help explain certain aspects of the bilateral relationship as well. The ASEAN-4 policy-makers are receptive to Japanese economic assistance in the form of aid, grants and technological co-operation of any kind. These open-economies have seemed their respective economies to benefit from Japanese private investment, joint ventures and ODA. Presumably, the ASEAN-4 will continue to request additional loans, grants, investment and joint ventures from Japan.

private investment, joint ventures and ODA. Presumably, the ASEAN-4 will continue to request additional loans, grants, investment and joint ventures from Japan.

It was during the 1980s that Japan became the dominant economic influence in Southeast Asia. A key element in this development was the change in Japan's official development assistance policy. Prompted by the Vietnamese invasion of Cambodia and a recognition that the region, which amongst other things supplied 15 per cent of Japan's oil and through which another 70 per cent passed on its way from the Middle East, needed to be shored up, the Japanese government started to increase the amount of aid it pumped into the ASEAN economies. This interest in ASEAN, it should be noted, was stimulated in part by American requests that if Japan could not help in providing military support it could at least boost its economic aid to Thailand, the ASEAN country most immediately threatened by the Vietnamese. Moreover, in the wake of the 'February 1986 People's revolution' in the Philippines, the Americans encouraged the Japanese to pump more aid into the faltering Filipino economy. As a long-term observer of Japan's foreign policy notes, "Japan's aid has been neo-mercantilist, designed to further Japan's geoeconomic goals."[55] The relative importance of Southeast Asia for Washington and Tokyo is reflected in the percentage of total aid that each devotes to Asia - about half of all Japanese aid goes to Southeast Asia compared to only 10 per cent of all American aid.

As a result of the American requests and the requirements of Japan's own economic interests in the region, Japan's aid to the members of ASEAN rose dramatically, from U.S.$703 million in 1980 to U.S.$2.132 million in 1989.[56] Even Singapore, whose per capita income rivals that of some developed countries, was given U.S.$13 million in grants and U.S.$72 million in technical assistance by the Japanese between 1985 and 1989. Inoguchi's paper from where these figures are taken concludes that, "most important for the argument that is being developed here, in the later half of the 1980s Japan supplied 65 per cent of all the bilateral ODA received by the countries of Southeast Asia. It is no wonder that these countries have come to see Japan as having the economic resources to occupy a leadership position."[57]

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55 William R. Nester(d), Japan and the Far East: Neomercantilism, Prosperity, and Dependence, Asian Profile, Vol.19, No.6, December 1991, p.509. See also William R. Nester(a), The Foundation of Japanese Power: Continuities, Changes, Challenges, Macmillan, London, 1990, William R. Nester(b), Japan's Growing Power over East Asia and the World Economy: Ends and Means, Macmillan, London, 1990, and William Nester(c), The Third World in Japanese Foreign Policy in Kathleen Newland (ed.), op cit.

56 Takashi Inoguchi, op cit. pp.658.

57 Ibid., pp.658.

TNCs are also in the process of establishing a foothold in Indonesia, Malaysia and Thailand. Lured by rapid economic growth, the prospects of profits, the increasing deregulation of the financial sectors, and the presence of Japanese companies, the TNCs are rushing to set up either joint ventures or branches in Bangkok, Kuala Lumpur, and Jakarta. As of April 1989, there are 14 representative bank offices in Indonesia, 13 in Malaysia, and 10 in Thailand, with more expected in the near future.

Such investments are not without problems. The tight control Japanese executives exert over subsidiary operations, together with other management practices, cause tensions. They are often reinforced by the memories of World War II and, although official government policy is to promote and welcome Japanese investments, resentment is widespread. In Thailand, for instance, Japanese companies are causing problems in the labour market, as local employees frequently leave domestic companies owned and operated by Thais to work for Japanese firms that offer better pay and working conditions. The better pay increases the average wage level, creating problems for domestic entrepeneurs. Local content is another source of friction. While most Japanese manufacturing companies are trying to increase such content, it is not always easy to do, particularly if the content-level is set by law and, thus, must immediately be met. Because the infrastructure of most countries in the region is not well developed, sudden increases in Japanese FDI also put great strain on existing facilities. Bangkok's port, for instance, is frequently filled up with cargo waiting for unloading and loading.[58]

In a case-study of 32 Japanese transnational construction companies and 51 Thai-Japanese joint-ventures in Thailand published by the Institute of Asian Studies, Chulalongkorn University in 1988 a grim picture of the Japanese herd mentality combining loans, aid and FDI was painted. In fact the Japanese experience tells us, "The fundamental purpose of Japanese investment policy has been to further the strategic objectives of Japan. Through its economic policies and influence over foreign investment, Japan has sought to further its own economic development, national security, and political autonomy."[59] Japan's national interests is global, but still the possibility exist that if the EC and NAFTA becomes even more exclusive, Japan could turn back to the old Asian interestsphere.

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[58] Chikara Higashi & G. Peter Lauter, The Internationalization of the Japanese Economy, (Second Edition), Kluwer Academic Publishers, Boston/Dordrecht/London, 1990, pp.344-345.

[59] Robert Gilpin(b), Op cit. pp.16 and Pasuk Pongpaichit, Op cit., (fn.4) pp.114.

h. The External Interlinkage Effect. The 'Hidden Hand of the Market'.

Concluding this section, it has been pointed out that, the most important constraint on enhancing the developmental capacities and autonomy of the ASEAN-4 states is found in the external context. The examples mentioned have centered around growing protectionism in the core states with a growing tendency towards exclusive regional trade blocs. In addition there are a number of differences between the NICs and Would-be-NICs which limit the strength of Southeast Asian state responses to changes in the international economy. The most important difference consist of the problem that contrary to the NICs the dependency of the ASEAN-4 on foreign investment, technology, and financial capital is extremely high. Furthermore there is a consistent heavy pressure from the multilateral Bretton Wood institutions, the World Bank, IMF and GATT for a premature domestic market opening.

The newly industrializing countries are not a new phenomena in the history of political economy. In fact, all core and semi-peripheral states used elements from the capitalist developmental state as a prerequisite of their industrial take-off. The basic understanding of the history of England, United States and later on Japan shows a highly interventionist state in the initial phases, heavy state support to infant industries and closing off various productive sectors with either high tariffs or substitution-policies, or both.

This basic fact of history seems to become more or less the common lesson of the day, not only in the case of the NICs or Southeast Asian Would-be NICs, but certainly also in The Peoples Republic of China, Vietnam and other countries.

As this paper has tended to show, the regional response in Southeast Asia, and indeed in the East Asian context as a whole, has had limited effects. The EAEC - and AFTA - proposals are more or less defensive in their content while the focus of individual states remains on national development. There are other options both regional and national. Like the Asia Pacific Economic Cooperation, APEC, and a growing number of small regional growth triangles. But again these examples are either supposed as cooperation among states or require a strong role of the state in the provision of infrastructure, tax incentives etc. These initiatives are extra-national and do not figure prominently among the highest priorities on the states development-agenda in the region.

The lesson to be learned from the experience of Japan, Korea and Taiwan and other core and semi-peripheral states is the role of neo-mercantilism as a deliberate development strategy. One definition suggests neo-mercantilism as: "A combination of industrial targeting at home, export of the resulting products into the world economy and import barriers against competitive foreign products. In short neomercantilism is defined as the separation of economics and politics with a foremost priority on economic growth, trade and export."[60] It is on this particular aspect Thailand, Malaysia and Indonesia have been successful emulating the earlier experiences from other developmentalist states.[61] The case of the Philippines is extra-ordinary in the Southeast Asian context. Not only, because of the influence from economic interestgroups on state affairs, but also because of the interference of IMF and the World Bank. One might conclude this session by upholding the Philippines as an example of IMF and World Bank mistreatment. The limited role of the state in the Philippines is a case in point. The technocrats and the economic elite have followed the very stringent 'advice' during the last 18 structural adjustment programmes, stabilization packages and lending programmes covering a period of 20 years. This period has eroded the developmentalist capacities of the Filipino state leaving the business sector without any support and a weak state in the international context.

On the other hand as argued by Rigg, one reason for the 'delay' of the ASEAN-4's industrialization, i.e. the shift from ISI to EOI, could be seen as a reflection of the influence wielded by domestic capitalists and, in the case of Malaysia and Indonesia, the wealth generated by oil and gas. However, this explanation is hardly sufficient as Rigg himself indicates "it should be pointed out that irrespective of this policy reorientation towards EOI, many of the measures protecting import-substituting industries have remained in place, and the two strategies are pursued simultaneously."[62]

These observations seemingly points to the importance of external factors as the main constraint on pursuing a coherent neo-mercantilist strategy, which are the obvious choice most catch-up countries follow.

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60 William Nester(c), op cit. pp.72.

61 For this kind of argument see also Suhadi Mangkusuwondo, op cit. pp.91-92. And Mohamed Ariff, Comment on Paper: Trade Policy as a Strategy for Structural Adjustment by Suhadi Mangkusuwondo, cf Ungku A. Aziz, ibid, pp.95-98.

62 Jonathan Rigg. Op cit. pp.202. Thailand serves as a striking illustration: "In Thailand, for example, the effective rate of protection on manufactured goods for the domestic market (excluding food, beverages, and tobacco) actually increased from 44 per cent in 1971, when export-promotion were first endorsed, to approximately 90 per cent at the end of the 1970s." (Ibid. pp.202).

Part IV. Internal and External Constraints on Decision-making and Policy-implementation in Peripheral States

a. Neo-mercantilism in a Semi-Open World-Economy

The dramatic changes which have occurred in the world economy and especially in the Asia-Pacific since the 1985 Plaza Agreement present a new challenge to the developing economies in the region. Although their currencies fell against the Japanese yen, they were later forced to appreciate against the U.S. dollar. This event has caused a dramatic change in the region's trade and investment pattern. Although export growth of Asian manufactured goods to the U.S. did not slow down, the appreciation of the currencies and other developments caused a temporary diversion of manufactured exports away from the U.S. market to Japan. Thus, this situation led many observers to talk about the "dream" that the Pacific Age, or Age of Pacific Prosperity, was being realized.

As long as this self-sustained expansion in the Asian-Pacific region continues, due to the 1985 exchange reform, lower interest rates and decrease in the price of raw materials the non-problem attitude is well preserved.

However clouds in the sky are rising over the Asia-Pacific region and a coming storm are just around the corner.[1] First, all the previously favourable conditions are changing: the U.S. exchange rate has rebounded and consequently the value of Asian currencies against the yen has also rebounded; the interest rates which had fallen since March 1986 and thus promoted investment have risen again, and so have the prices of oil and other raw materials. This reverse trend may lead the Asian developing economies back to their original position of vulnerability. The apparent export-growth optimism may easily turn out to be short-lived and fragile. Second, the opening up of China has diverted investment and overall capital flows away from other developing parts of Asia and the 'Sleeping Giant' remains the unknown factor. Third, the failure of the Bretton-Wood institutions to negotiate a liberal solution to the growing symptoms of protectionism and trade-block regionalism is apparent.

The re-emergence of neo-mercantilism as a state- and regional-state-strategy is the only choice of semi- and -peripheral state-responses to these new challenges described above. It also

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[1] See among others: Yasuhiko Torii, Asia-Pacific Cooperation and its Contribution: Historical and Future Perspectives, in Takao Fukuchi and Mitsuhiro Kagami, op cit. pp.573-574.

proves the failed prophecy of the Fukuyama 'End of History' ideology which in fact has turned out to become 'A Return to 1929', where mercantilism, nationalism and growing sentiments of protectionism gathered in 'trade-blocks' in the core countries has become the logic reinforcing the failure of free-market capitalism. As Yasuhiko Torii notes: "One should not forget that the policy of "begging thy neighbours" was mainly responsible for the decline in the world trade that led finally to the Great Depression of the 1930s."[2]

This conclusion parallels Charles Tilly's study on the historical experience of European state making: "The interactions of war-making, taxation, and capital accumulation profoundly shaped European statemaking. Europeans did not undertake those three great activities with the intention of creating centralized, differentiated, autonomous, far-reaching political organizations - national states. Nor did they ordinarily foresee that organizations of that sort would emerge as a consequence of the pursuit of war-making, taxation, and capital accumulation."[3]

To put it crudely: The people who controlled European states (and organizations that eventually became the core of states) made war in order to hold off, or to master, their competitors, and thus to enjoy the fruits of power within a secure, or even expanding, territority. The large number of similarly situated competitors promoted the adoption of new military technologies that conferred even a slight competitive advantage on their users. But new technologies generally cost more than those they replaced. Therefore to make effective war, powerholders attempted to accumulate more capital. The organization statemakers created to sustain military activity and its complements hardened into the apparatus of a national state: durable, centralized, differentiated, autonomous, powerful. [Thus] the use of coup d'etat as the standard form of succession to state power surely depends, at least in part, on the power and autonomy of the armed forces relative to that of any other organizations within the state.[4]
Suspicion of some such regularity has led many analysts to search for roots of military power and state autonomy in poverty, underdevelopment, or tribal ideology. But the explanation of military power and state autonomy could lie mainly outside the states in question; armed forces could well gain power and autonomy within their own spheres to the extent that great powers provided arms, equipment, training, and military advisers to their states, and the

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[2] Ibid., pp. 582.

[3] Charles Tilly, Big Structures Large Processes Huge Comparisons, Russell Sage Foundation, 75th Anniversary Series, New York, 1984, pp.141-142.

[4] Ibid., pp.146.

amount of that military support could well depend on the geopolitical relationships of the states in question to the world's great powers. These conditions, described by Tilly are similar to the importance of, first the Korea and next the Vietnam War. In general, to the take-off in East Asia. The European experience is close to that of the ASEAN-4 where the role of foreign powers especially the U.S. have determined and shaped the making of states and nations in the region. The role of technocrats and the military resembles the patterns of neo-mercantilism in Europe, and war could be replaced with trade or vice versa.

Those who proclaim the "End of History" merely record their own satisfaction with the present condition. For those who perceive themselves as the victims of the present trends, history is about to unfold in new forms. The historical dialectic, despite Hegel and Marx, is without end.[5] The collapse of the Soviet empire does not impose a new world order but merely a dropback to pre-2. World War order. In that period traditional mercantilism and neo-mercantilism were the dominant state strategies in the world system. A traditional quest for power, capital, markets and new technology led to the catastrophic world wars and it could also be the case in the present indeterminate situation where the transitional problem is yet to be solved. The world economy is increasingly being transformed for the new coming era in which butter will be far more vital than guns, and competition among major powers will be intensified. This creates a state of U.S.-Europe-Japan "Tripolarity", resulting in strong economic rivalry among the three major world powers.

Thus, an exploration of state building and the processes of domestic policy-making becomes crucial finding an explanation on what are the principal causes of differentials in national growth rates. In that case, an encompassing comparison would lead to a better explanation.

b. Concluding Remarks

Simple arithmetic shows how bizarre the 'NIC prophecy for all' argument really is. In 1987, South Korea's per capita exports amounted to $1.220, Hong Kong's to $8.650, Singapore's to $11.000. What would happen if Thailand or Indonesia were to attain similar levels? If Indonesia, whose population is 171 million, were to export as much per capita as Singapore, this single country would take over fully 75 per cent of world trade! (The largest present exporter, Germany, accounts for under 12 per cent of world trade). A less extreme example: if Thailand with 54 million people, were to equal South Korea's per capita performance, it

[5] Robert W. Cox (c), Op cit., pp.2.

would export 2.4 per cent of world trade; whereas the two biggest dragons, Taiwan and South Korea, today export respectively 2.2 per cent and 1.9 per cent![6]

The NIC's share of world exports rose from less than 2 per cent of world exports in 1960 to nearly 8 per cent by the mid-1980s. Largely because of this rapid growth of NICs exports, Asian developing countries as a whole increased their share to account for 12.5 per cent of world exports in 1987 while other developing regions have seen declining shares of world trade. In Latin America, in particular, the situation has been almost exactly the reverse of that of the Asian NICs, with export shares dropping from nearly 8 per cent in 1960 to less than 4 per cent in 1987. But again the percentage share of world exports by the ASEAN-4 decreased from 2.5 per cent in 1960 to 2.2 per cent in 1987.[7]

Moreover, the economic importance of the ASEAN-4's is often exaggerated, as though these countries are on the verge of becoming another Japan or Germany (as implied in the concluding chapter of Lim and Pang Eng Fong's comparative study on East and Southeast Asian economies).[8] In fact, although ASEAN is twice as large as the EC in geographical size, the former's clout in the international, political and economic arena pales in comparison with that of the latter. More striking is the disparity in terms of GNP, with ASEAN's aggregate GNP being only one-fifteenth that of the EC. It is of interest to note that the richest country in ASEAN, Singapore, has a *per capita* income that is roughly comparable to that of the poorest members of the EC.[9]

Compared with Japan the ASEAN countries including Brunei and Singapore accounted in 1985 only for 1.4 per cent of world GDP (against Japan's 11.8 per cent) and are projected to 1.6 per cent in year 2000 against Japan's 14.0 per cent.[10] In area it is approximately 10 times bigger than the size of Japan. The ASEAN-4 per capita U.S. dollar income in 1988 was

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6 Susan George, Op cit., pp.125.

7 Seeji Naya, Economic Performance: NIEs and Beyond, in Takao Fukuchi and Mitsuhiro Kagami-(eds.), Perspectives on the Pacific Basin Economy: A Comparison of Asia and Latin America, IDE & ACF, Tokyo, 1990, p.160.

8 Linda Y.C. Lim and Pang Eng Fong, Op cit.

9 These comparative notes includes all ASEAN countries, see Mohamed Ariff, EC-ASEAN Interaction and Collaboration in a Multilateral Framework: The Economic Aspects, in Giuseppe Schiavone (ed.), Western Europe and Southeast Asia Co-operation or Competition, Macmillan, London, 1989, p. 222.

10 Teerana Bhongmakapat, An Analysis of Regional Trade Blocs, Chulalongkorn Economics Research Center (paper no.3503), Bangkok, 1992, p.38.

1.940 in Malaysia, 1.000 in Thailand, 630 in the Philippines, and 440 U.S.$ in Indonesia. These figures pale alongside Japan's 21.000 U.S.$ in 1988.[11] The combined total GDP (nominal) in the ASEAN-4 in 1990 was 273.712 million U.S.$ compared to Japan's 2.940362.[12] Compared with Japan's capital markets, now the largest in the world, the Southeast Asian share markets are diminutive and '*terra incognita*' for most foreign investors. Even Hong Kong's share market, capitalised in 1988 at over U.S.$40 billion, comes to less than 3 per cent of Tokyo's (or Osaka's) capitalization in the same year. Yet Hong Kong dwarfs the ASEAN exchanges by almost the same magnitude, belying claims that this slice of tropical Asia now figures as a major independent capital market force. 'What stands out' says Rowley, "is the relative insignificance of other markets in Asia. (The) markets are often tiny in relation to the size of the economies they operate within."[13] As a matter of curiosity the daily turnover in officially traded golf memberships and debentures in golf courses at the Tokyo stockexchange has reportedly reached a volume that is far greater than the combined daily volume of the share markets of the Philippines, Malaysia and Indonesia put together.[14]

As a tentative conclusion this paper argues that the causes of development and economic performance appears to be determined primarily by the domestic policy framework. But the external factors serves as the most decisive factor when it comes to the three most important impediments for growth of the economy. These are the domestic control of foreign investment, loans, and ODA. These three factors taken together have more or less shaped the pattern of domestic policy-responses from the ASEAN-4. In addition a number of factors have been pointed out as exclusive and external to the control of policy-makers in the ASEAN-4 such as growing protectionism, hidden or visible, in the core countries, regionalism in trade-blocks and fluctuations in commodity-prices.

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11 Inspiration thanks to Giovanni Arrighi, World Income Inequalities and the Future of Socialism, Braudel Center, State University of New York, 1990. Figures from World Bank, World Development Report 1990, Washington, 1990.

12 ASEAN-Japan Statistical Pocketbook, ASEAN-Centre, Tokyo, 1992 p.9.

13 A. Rowley, Asian Stockmarkets: The Inside Story, FEER Publ., Hong Kong, 1987. Quoted from James Clad, Behind the Myth. Business, Money and Power in Southeast Asia, Grafton Books, London, 1989, p.168.

14 Friedemann Bartu, The Ugly Japanese: Nippon's Economic Empire in Asia, Longman, Singapore, 1992, p.175.

APPENDIX: FRAMEWORK AND METHODOLOGY FOR A COMPARATIVE CASE-STUDY ON ECONOMIC POLICY-MAKING IN THE ASEAN-4

a. Project outline and general framework for the interviews

My interest in the process of policy and institutional change has led me to investigate policy-making within state bureaucracy and to focus on the factors that appear to influence decision makers. I take instances of policy reform as the unit of analysis, technocrats and bureaucrats as the focus of attention, and the processes of agenda setting, policy-making, and implementation as critical arenas for understanding the factors that account for how, why, and when policy and institutional changes occur.

The case-study consider three central questions: 1) How did the issue of reform get on the agenda of government decision making? 2) What political, bureaucratic, and technical criteria were important in promoting or inhibiting the process of change? and 3) What factors led to the sustainability or abandonment of reformist initiatives.

Four assumed criteria are used to make decisions about major policy and institutional reforms: 1) The technical advice they receive; 2) the impact of their choices on bureaucratic interactions; 3) the meaning of change for political stability and political support; and 4) the relationship with international actors, and institutions.

Figure 2 is an extension of figure 1. It illustrates the various actors and institutions at the international level as well as in the domestic context which hypothetically influence economic policy-making processes in developing countries.[1]

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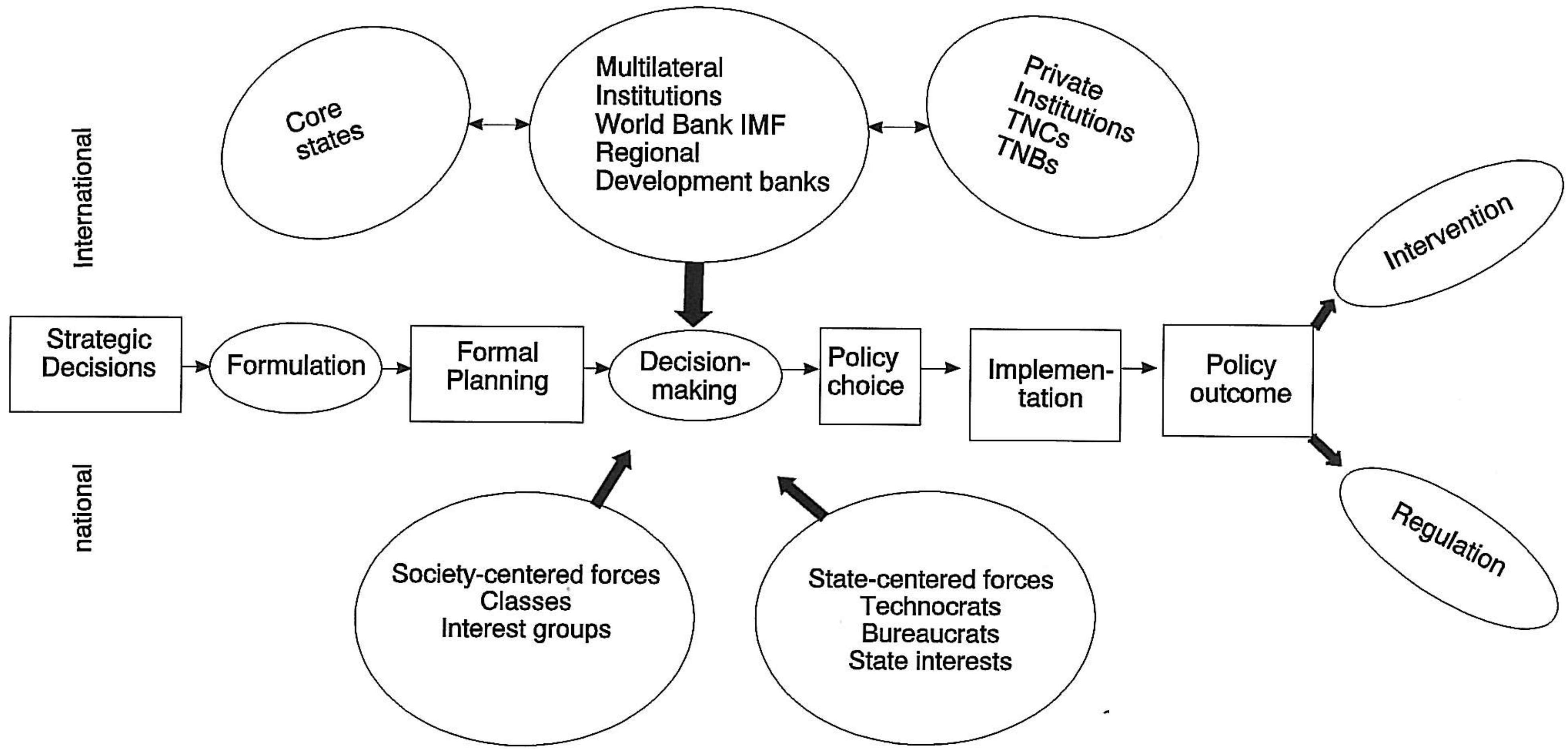
1 For a framework in the NIE/NPE perspective, see Merilee S. Grindle and John W. Thomas, Policy-makers, Policy Choices, and Policy Outcomes: Political Economy of Reform in Developing Countries, in Dwight H. Perkins and Mikael Romer (eds.), Reforming Economic Systems in Developing Countries, Harvard Studies in International development, Harvard Institute for International Development, Harvard, 1991, pp.81-114.

Figure 2: Internal and External Influences on Economic Policy-Making



b. The Influence of Technical Analysis

It is assumed that decision makers appear to be strongly influenced by technical analyses of the problem area and advice how best the particular problem can be solved. In explaining a reform initiative from this perspective, the reliance of decision makers on their technical advisory teams or foreign technocrats and the quality of information available to them are stressed.[2]

c. The Power of Bureaucratic Interactions

A second perspective that emerge is signalled in the way policy elites are influenced by the bureaucratic politics that surround the selection of policy and institutional changes. With regularity, decision makers within governments are concerned with making decisions or supporting positions that will enhance - in terms of budgetary resources, influence over programs, prestige, or clienteles - the bureaucratic entities they lead or are part of.

d. The Significance of Political Stability and Political Support

A third concern of policy elites stress the importance of political stability, political opposition and support, and the political use of policy resources. Thus, it can be assumed that policy reform options are assessed by decision makers in terms of how reaction to them would affect the longevity of the regime in power or the particular leadership group wielding authority. Explicitly political criteria are applied to decision making and they indicate the importance of building or maintaining coalitions of support for the incumbent political elites.[3]

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2 The important role ascribed to technical analysis in policy choice may reflect the fact that technocrats and bureaucrats are central figures in policy making circles in many developing countries and the process of decision making itself is relatively closed and even secret. A supporting factor may be the complexity of the issues that political leaders are expected to address in shaping development policies in their countries, and the need to explain their decision in terms of the promotion of the national goal of development.

3 In a considerable amount of scholarly work in the NIE perspective, regime maintenance goals have been adopted as a way to explain why certain policy options are "off-limits" because they impose heavy costs on important groups in the society. They are also used to explain how government actions are employed as "pay-offs" to maintain the loyalty of importants groups or interests. See Stephan Haggard (b), Op cit., pp.254-255.

e. The Persuasiveness of International Pressures

A fourth factor that is regularly considered important by technocrats emphasizes the role of international actors and international economic and political dependency relations in determining the outcome of decision making about reform and institutional change.[4]

Several case studies together with the preliminary findings of this discussion-paper indicate how international actors become engaged in bureaucratic interactions in developing countries, suggesting the appropriateness of including them within the analysis of economic policy-making in the ASEAN-4.

The following outline a preliminary list of bureaucrats, technocrats and policy-makers in domestic and foreign institutions: (A): Policy-makers, planners and practioners in Government and State Ministries and Departments: 1) The Centralized Economic Planning Agencies in each country e.g. the Economic Planning Unit (EPU) in Malaysia, Bappenas in Indonesia, National Economic and Development Authority (NEDA) in the Philippines, and National Economic, Social and Development Board (NESDB) in Thailand. At least one from each department/unit: macro-planning division, external assistance division, a second-tier top-level decision-maker. 2) Ministries of Finance (advisers or second-tier level decision-makers), 3) Central Banks (advisers and/or second tier decision-makers). 4) Referring to 1,2,3, Coordinating Ministries of Economic Policy etc. (Preferably, a top-level adviser). Furthermore, but secondary, representatives from one-stop agencies like BOI in Thailand and the Philippines, MIDA in Malaysia and BKPM in Indonesia dealing with foreign and domestic investment will be approached, Ministries of Trade and Industry, Labour etc. (B): Domestic Organizations of significance: 1) Business Organizations e.g. Chambers of Commerce (normally two in each country: the domestic and the Chinese). 2) Labor Union Federations: (normally only one, the General Secretary), but in the case of the Philippines two because of competition between an American supported and a more nationalist oriented. (C): Foreign State Institutions: 1) Head of the Economic Sections at the U.S. and Japanese Embassies. (D): Bilateral institutions: OECF, JAICA, USAID. (E): Semi-state institutions and foreign Business organizations: 1) International Chambers of Commerce, JETRO, Exim-banks, Transnational Banks. (F): Multilateral institutions: 1) World Bank (IBRD), International

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4 The international leverage element is of considerable importance in a period of international economic crisis when foreign donors, governments, and international agencies can put extensive pressure on developing country governments to make recommended choices and can command extensive technical expertise to influence decision makers. It is also encountered in efforts to explain such issues as technology choice and institutional reform that become conditional on "rewards" from international actors.

Monetary Fund (IMF), International Finance Corporation (IFC), Asian Development Bank (ADB). (G): Regional Organizations: 1) The ASEAN-Secretariat in Jakarta, ISEAS in Singapore etc.

Approximately 120 interviews are expected to be undertaken in the ASEAN-4 during a period from 1st July 1992 to 1st April 1993. 30 in each country with more or less 15 in the state sector and 15 in the non-state sector. In addition, a number of informal talks will be held with scholars and academics at various Faculties and private research institutions. Also a significant number of libraries, public and private plus special libraries at Ministries etc. will be visited.

The following is a brief outline of the general framework for the discussion/interviews. While there are differences between the various persons and their institutional affiliation the questions have of course been redirected towards the specific framework.

f. **Questions for interviews on Economic Policy-making** (an example: Indonesia) (Government agencies)

There are five types of questions. All concerned with potential economic and political influence on economic policy-making, planning and management in Indonesia: 1)Technical influence, power of bureaucratic interactions, and the significance of political stability, 2)Domestic and foreign investment, 3) Overseas Development Assistance and multilateral assistance, 4) Foreign loans, 4) National economic policies in the sub-regional (ASEAN and Southeast Asia), regional (North and Southeast Asia) and international context. However, please whenever possible feel free to comment on Indonesia's policy position and ASEAN in general, according to each type of question.

Questions ref. 1):

A) Is it correct that reform initiatives and institutional changes is strongly influenced by technical advisory teams and/or foreign technocrats, and the quality of the information provided are stressed?

B) Decision makers within government and state planning boards could be claimed to be concerned with making decisions or supporting positions that enhances carrier opportunities and/fortunes - in terms of budgetary resources, influence over programs, or prestige - of the bureaucratic entities they lead or are part of? Is that your impression too? If yes, name some examples? If no; there are several examples...

C) What political criteria are applied to decision making in this government agency?

D) Name the institutions, agencies, individuals, i.e. business organizations, chambers of commerce, labor unions etc. in Indonesia and abroad which are consulted in relation with decision making processes? Or,

E) Would you claim that investment policies, industrial policies and other economic policies interfering in the market place are decided upon within a certain autonomy of the state?

F) Do you have a chart describing the institutional and organizational set-up dealing with government and state external relations?

G) On what specific points have the New Order regime incorporated parts of the so-called 'Japanese Model' in the formulation, planning and implementation of economic policies?

Questions ref. 2):

A) Since planning and implementation of economic policies play a big role for Indonesia as a host country trying to attract foreign investment in great competition with other near-NICs and LDCs in the region can you explain the exact content of these policies? What political and economic factors do you think are considered important from foreign investors point of view before they decide to invest?

B) Are domestic policies determining where investors choose to invest? If no, what essentially are the factors driving foreign investors to Indonesia? (Or is it for instance structural changes within their own country's economy and not the domestic policies of Indonesia)?

C) How will you describe the location of Indonesia in the global strategy of TNCs from 1) Japan, 2) U.S., 3) E.C.? What are the policy positions by your government towards the strategies of the TNCs and their investment policies in Indonesia (ASEAN and Southeast Asia in general)?

D) Since the overall shift from import substitution to export orientation, there have been a significant increase in FDI in Indonesia in general? Do you consider it is due to domestic or international factors or a combination of both?

E) Can you provide any statistics/hard data or qualitative evidence from the last 20 years showing the impact of FDI in terms of growth in GDP terms and/or other aspects of the economy? What are the so-called spill-over effects of investment in Indonesia? Proof?

F) How has the pattern of Trans National Corporations and Small and Mediumsized Enterprises evolved in Indonesia? What are the qualitative and quantitative difference between FDI from Japan, United States and the European Community?

G) Do you have any hard data showing the overall repatriation of profits by foreign companies from Indonesia? By sector and/or branch?

H) How big are the overall foreign exchange earnings in Indonesia in relation with FDI?

I) How big are (or what are the percentage) the import material requirements by foreign companies by sector or in general?

J) Are their any examples on FDI competing away domestic companies which already existed in the same industry or having pre-empted the opportunities for local investment in such activities? Any examples of crowding out or any complains from the Indonesian business sector?

K) Will the entry of TNCs in export oriented industries provoke more protectionist practices from the major importing countries like the EC and U.S./NAFTA? Or do TNCs (in particular Japanese) come primarily with the intention of using GSP privileges which are still available in Indonesia and, as a result, deprive the host national(s) of the effective usage of these privileges? Or, on the other hand do you consider they create and provide more export opportunities?

L) Will the entry of TNCs in intermediate and capital goods industries result in the control of TNCs in some vertically integrated subsectors in Indonesia?

M) Are there any co-ordinating mechanism (governmental or otherwise) between (Japanese or U.S.) TNCs and Trans National Banks which could be claimed having an influence on economic policy reforms and institutional change in Indonesia during the last 20 years? If yes, name them?

N) Do you have a list or data showing the level and relationship between TNCs and TNBs in Indonesia (and ASEAN)? Type of investment, amount, assets, joint ventures (with who), loans, and profits?

O) Do you have a list showing consultants, government advisers and expertise, agencies from Japan, Korea, Singapore or U.S or others involved in collaboration with the Indonesian government on economic policy-making, formulation, planning and implementation?

P) How do you consider the question of technology transfer in relation with FDI? If positive name some examples (data)? If negative state why?

Q) What are the benefits of increased FDI for the Indonesian workforce besides of the employment it creates? What are the benefits for the domestic business sector? (Answer eventually according to the specific ethnic policies in Indonesia i.e. are these policies only aimed at benefitting the original population on Java thus keeping the Chinese out of business? Reality)?

R) Does the level of wages, and the question of labor organization play any role regarding your recommendations and policies towards FDI in Indonesia? Did these policies change during the last 20 years? How and why?

S) According to various diversification theories it is dangerous for a country to rely to much on a single commodity or product? Related to this, do you consider Indonesia's oil and petroleum industry as vulnerable to various changes in the international economy? How and what does the government intend to do?

T) How big are the ratio of FDI to the these same companies export to their country of origin? (Any examples)?

Questions ref. 3):

A) Are there any relationship between ODA and FDI from Japan, U.S. and E.C., respectively, to Indonesia? If yes please name some examples? Are there any figures or studies showing this relationship?

B) Do you consider ODA eventually through tied loans as an important element providing for example the necessary infrastructure considered appropriate to pave the way for FDI? (Examples, figures).

C) What are the ratio of 1) Japan's, 2) U.S.', 3) E.C.'s respective contribution of ODA to bilateral versus multilateral aid and/or loans to Indonesia? Do you know off any examples where bilateral or multilateral aid could be claimed as a forerunner for FDI?

Questions ref. 4):

A) Do you have any hard data showing the foreign source of commercial and bilateral funding on a loan basis to infrastructure, education, high-tech parks and other government expenditures in Indonesia?

B) Has the pattern of loans on a bilateral, commercial or aid basis changed during the last 20 years to Indonesia (ASEAN)? If yes, how and why?

C) What are the normal conditions tied to these loans on a bilateral basis? On a multilateral basis? On a commercial basis?

D) What are the advantages of having such a large presence of TNBs in Indonesia? Are there any relationship with this presence and the formulation, planning and implementation of economic policies in Indonesia?

E) Are there any pattern or relationship if we compare loans in general on a bilateral, multilateral and commercial basis with FDI and ODA figures? Do you estimate this relationship, if any, as playing a determining role for Indonesia's development?

Questions ref. 5):

A) Do you believe there are any relationship or similarity between the role and autonomy of MITI in Japan and the National Development Planning Agency-Bappenas in Indonesia (in ideal or reality)? Are the bureaucracy in Indonesia 'guiding' the economy as MITI did at least in the early phases of the development of Japan's economy? Is this in particular important with regard to formulate, plan and implement economic policies? Or do you regard planning only as a tool?

Can you point out some of the financial and monetary tools which are considered important seen from your country's point of view with regard to the stability of a developing economy? (Please refer to Indonesia, ASEAN and other developing economies in general)?

B) How do you describe the difference between the role of the state in the economy in the ASEAN economies? Is democracy a hindrance or an obstacle for economic development?

C) What factors in Indonesia are so attractive for especially Japan determining a relatively large presence with loans, ODA, and FDI? Are there any hierarchy between these factors? Is it 1) political stability, 2) low wages, 3) no, or at least weak trade unions, 4) government incentives, 5) GSP privileges etc.? Please also state your country's foreign policy considerations towards the development of the ASEAN region?

D) Do foreign investors and governments have any opinion about the question on trade unions in the various sectors of the economy which are plausible for investment? Are there differences between various investors point of view on this particular issue? Have you experienced any foreign investors or government pressure or threats to consider a pull out or relocation of industries or withdrawal of promised investments due to this issue?

E) Do you regard the AFTA resolution (ASEAN's proposal for a free trade area) and the proposal made by the Malaysian Prime Minister Mahathir of EAEG/EAEC as an essentially defensive measure to threaten openly, at least verbally, the EC and NAFTA trade-blocks? Exactly, what are the factors determining your governments policy position towards these issues?

F) Do you have the exact figures showing the increase in intra trading between TNC's among the ASEAN region? Split up between intra TNC trade and Singapore based companies trade?

G) Last question combining 1-4: Are there any institutional coordinating mechanism, governmental, informal or otherwise which coordinates FDI, ODA, and loans to Indonesia and other ASEAN countries?

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